



Southern African Accounting Association

**2024 Southern African Accounting
Association (SAAA)
Regional Conference Proceedings**

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Southern African Accounting Association

SAAA Regional Conference Proceedings 2024

PREFACE

The 2024 Southern African Accounting Association (SAAA) Regional Conferences were hosted in person by four Regional Committees namely:

Western Cape Regional Conference

Eastern Cape Regional Conference

Gauteng North, Gauteng Central & Central Regional Conference

Kwazulu-Natal Regional Conference*

***THEME:** Transformative Accounting: African Insights

*No Track 1 papers were submitted for the regional conference

OBJECTIVE OF THE CONFERENCE

The Southern African Accounting Association (SAAA) Conferences aim to contribute towards the achievement of the SAAA vision of promoting excellence in Accountancy Higher Education and Research in Southern Africa. By providing a regional research and information sharing platform, academics can play an active and leading role in various Accountancy Professions in the regional context.

REVIEW PROCESS AND COMMENTS

All papers submitted to the 'refereed papers' (as published in this proceedings) were subjected to a rigorous process of double-blind peer review, meaning they were reviewed by at least two reviewers from an independent South African University. Comments and suggested amendments from the reviewers were communicated to authors. Reviewers and regional subject representatives/track chairs decided on the acceptance of the papers for presentation at the Regional Conference and thus inclusion in the conference proceedings.

The accepted Track 1 papers (refereed papers) were contributed by academics representing several universities. The details on the 12 accepted papers included in the conference proceedings are as follows (weighted according to author affiliation).

SOUTH AFRICAN UNIVERSITIES/ENTITIES

Cape Peninsula University of Technology	1
Nelson Mandela University	1
North-West University	1
Tshwane University of Technology	1
University of Cape Town	2.5
University of Johannesburg	2
University of Limpopo	1
University of the Western Cape	1
University of the Witwatersrand	1
Other	0.5
TOTAL NUMBER OF PAPERS	12

SAAA REGIONAL CONFERENCES COMMITTEE MEMBERS

REGION	NAMES
Western Cape Regional Conference	Chairperson: Dr Aletta Neethling, Cape Peninsula University of Technology
	Mr Juan Ontong, Stellenbosch University
	Ms Zurelda Mongane, University of Western Cape
	Ms Navitha Sewpersadh, University of Cape Town
Eastern Cape Regional Conference	Chairperson: Ms Gail Young, University of Fort Hare
	Ms Lynn, Schoeman, Nelson Mandela University
	Mr Bradley van der Ross, Nelson Mandela University
	Ms Clarissa Grondt, Nelson Mandela University
Gauteng North, Gauteng Central & Central Regional Conference	Chairperson: Dr Beatah Sibanda, North-West University
	Co-chairperson: Prof Zack Enslin, University of Pretoria
	Co-chairperson: Ms Tsireledzo Mulaudzi, University of the Witwatersrand
	Ms Karlien Dempsey, University of Johannesburg
	Ms Sindi Mokgopha, Tswane University of Technology
	Mr Jef Mosala, University of the Witwatersrand
	Ms Jane Ndlovu, University of the Witwatersrand
	Dr Veruschka Pelser-Carstens, North-West University
	Ms Magda Turner, Institute of Accounting Science
Kwazulu-Natal Regional Conference	Chairperson: Ms Anne Soldat, University of Zululand
	Mr Alastair Marais, University of KwaZulu-Natal
	Dr Anchal Ramsarghey, Durban University of Technology
	Dr Kevin Ramsarghey, Mangosuthu University of Technology
	Ms Cristina Weyers, University of Zululand
	Mr Sibusiso Khoza, University of Zululand

SAAA EXECUTIVE COMMITTEE MEMBERS

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Prof Phillip de Jager	SAAA Research
Mr Juan Ontong	SAAA Seminars / Webinars

LIST OF TRACK 1 REVIEWERS

REVIEWER	INSTITUTION
Andre Neethling	Cape Peninsula University of Technology
Eddie Mankeyi	Cape Peninsula University of Technology
Lisa Botha	Cape Peninsula University of Technology
Nelly Msiza	Cape Peninsula University of Technology
Prinesh Bikhani	Cape Peninsula University of Technology
Thithi Mpho	Central University of Technology
Ayesha le Roux	Nelson Mandela University
Deroul Chauke	Nelson Mandela University
Tracy Beck	Nelson Mandela University
Herman Viviers	North-West University
Jacqui-Lyn McIntyre	North-West University
Surika Van Rooyen	North-West University
Veruschka Pelser-Carstens	North-West University
Esther Mason	Rhodes University
Richard Poole	Rhodes University
Philip De Jager	University of Cape Town
Shaun Parsons	University of Cape Town
Sihaam Shamsoodien	University of Cape Town
Mariska McKenzie	University of Johannesburg
Blanche Steyn	University of Pretoria
Elda du Toit	University of Pretoria
Reon Matemane	University of Pretoria
Danielle van Wyk	Stellenbosch University
Moses Jachi	Stellenbosch University
Regan Everts	Stellenbosch University
Rudi Nel	Stellenbosch University
Hamman Schoonwinkel	Stellenbosch University
Annelize Oosthuizen	University of the Free State
Marese Lombard	University of the Free State
Badrunessa Williams	University of the Western Cape
Bonita Raymond	University of the Western Cape
Elton Pullen	University of the Western Cape
Edwardo Muriro	University of the Western Cape
Sedzani Masundwa	University of South Africa

WESTERN CAPE REGIONAL CONFERENCE

THEME: Pragmatic accounting solutions for a better South Africa after COVID

HOSTED: 05 September 2024

COVID-19 and the Going Concern Assumption: A South African Perspective

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Purpose: In March 2020, the World Health Organisation declared COVID-19 a global pandemic. In line with countries across the globe, the South African government placed restrictions on the movement of people and business operations to prioritise the health and safety of the population. Consequently, businesses were required to operate in an unstable economic state, and strict operational uncertainties made it difficult for management to forecast or estimate the financial implications of the pandemic. The COVID-19 impact has therefore made it more challenging for companies to assess and disclose the going concern assumption. Thus, the importance of and scrutiny needed in going concern evaluations is heightened.

Design/methodology/approach: This study investigates how companies during COVID-19 have reported on going concern considerations regarding accounting standards and auditor recommendations. The financial statements of a sample of Johannesburg Stock exchange (JSE) listed companies are analysed. Insights into the going concern disclosure presented by these companies are shown.

Findings: Results will show that most companies consider the implications of COVID-19 on company viability. Additional correlations are drawn between company financial performance and going concern assessments and the extent to which independent auditors have considered these assessments.

Originality/contribution: This study adds to the limited literature by studying the impact of the Covid-19 financial crisis on going concern assumption in a South African context.

Keywords: COVID-19, financial crisis, financial reporting, going concern assessment, going concern disclosure, audit report

INTRODUCTION

The COVID-19 pandemic has had significant impacts such as the loss of the main market and key customers and significant impairment of fixed and current assets for example, initially impacting tourism companies and similar, but eventually on the global economy and therefore, considerable attention by management, directors, and auditors has been necessary for assessing the impact of the pandemic on the appropriateness of the going concern assumption used in preparing financial statements (Đorđević & Đukić, 2021).

The International Financial Reporting Standards (IFRS) conceptual framework states that financial reporting aims to provide information to investors, lenders, and creditors that helps make decisions (IFRS, 2021a). For this purpose, financial information should be relevant and faithfully

represented. This ensures that company stakeholders can clearly understand a companies' economic and financial position (Tibiletti et al., 2021). Financial statements are prepared on the underlying assumption that a company is a going concern, i.e., no material uncertainties exist to cast doubt on whether the entity can operate within the foreseeable future. Therefore, the going concern accounting principle is a basis for the preparation of financial statements that endorses the usefulness of reported financial information (Savova, 2021). This is a fundamental premise needed to guarantee the accurate and fair representation of financial information in line with IFRS accounting standards (Tibiletti et al., 2021). Financial statements prepared on a going concern basis ensure that readers receive financial information based on a company's ability to continue its operations (Campra, M., Finessi, E., Passarani, D. A., 2010).

¹ This paper is partially based on the dissertation/thesis of Rebekah Swanepoel (second author), presented for the Bachelor of Commerce Honours degree at the University of Cape Town with supervisor and co-author Samiah Fakier.

COVID-19 has had a vast impact on the global economy due to travel bans, lockdowns, quarantine regulations, and immense business disruptions, resulting in companies operating in a highly uncertain economic environment. (Đorđević & Đukić, 2021). All companies have been exposed to events resulting from the pandemic, a situation that has raised significant doubts regarding the going concern assumption (Đorđević & Đukić, 2021). The going concern assessment relies on a company's ability to make assumptions and forecasts about future operations. However, economic uncertainties have made this problematic (Ernst & Young Global Limited, 2020; Tibiletti et al., 2021).

This paper contributes to prior studies investigating the financial reporting implications of COVID-19 and economic periods of global financial distress (Baskan, 2020; Campa et al., 2010). The study can be further used as a source for researchers in financial reporting, specifically the area of going concern. Furthermore, businesses and auditors can benefit from this paper, as it provides unique insights into the going concern reporting implications of events creating financial distress.

This paper aims to review the going concern disclosure provided in the financial statements of South African listed companies. To this end, the going concern requirements per IFRS and related guidance from audit firms in response to COVID-19 financial crises will be evaluated. This will form an understanding of companies' expectations in response to the pandemic. The research will then be followed by an assessment of the reported going concern disclosure in the annual financial statements of JSE-listed companies for the year-end 2020/2021. The sample consists of 141 companies listed on the Johannesburg Stock Exchange. Various segments of these companies' annual reports have been analysed, including the director's report, auditor's report, independent auditor's report, and notes to financial statements.

Considering the impact of COVID-19, this study provides insight into how listed companies are disclosing going concern assumptions in light of applicable financial reporting guidelines, thus providing an understanding of this research area. The results of this study reveal that the COVID-19 financial crisis has resulted in financial reporting implications about the going concern assumption. The majority of companies are considering the impact of COVID-19 on the

assessment of going concern. Of the companies that reported a revenue decrease for the 2020/2021 financial year-end, 86% considered the impact of COVID-19 in their assessment of going concern. In contrast, significantly fewer companies provided COVID-19 going concern disclosure where those companies found themselves in loss positions on their statements of comprehensive income for the 2020/2021 financial year-end. Moreover, a small proportion of independent auditors expressly considered COVID-19 in evaluating managements' going concern assumptions.

LITERATURE REVIEW

This literature review will outline the core authority on the going concern principle. Subsequently, insights will be drawn on the implications of the COVID-19 financial crisis on financial reporting and how this is comparable to the economic state of the 2008 financial crisis. A discussion on the main perspectives will follow by audit firms and other studies on the going concern reporting disclosure and how this has been impacted by COVID-19.

Background: Relevance of financial information

Annual financial statements are the essential resources used by company stakeholders, and as a result of globalisation, the need for uniform financial reporting is vital (Tibiletti et al., 2021). The International Accounting Standards Board (IASB) consistently develops globally accepted international accounting standards to ensure information transparency. Information transparency is vital as it enhances the qualitative characteristics of financial information to provide investors, lenders, and creditors with a clear outlook on how resources should be allocated to business activities (Shakespeare, 2020). Insolvency risk is evaluated based on information provided to stakeholders in financial statements. Therefore, the quality of this information will necessarily impact the value of the assessment of insolvency risk (Bushee & Noe, 2000).

The conceptual framework of International Financial Reporting Standards (IFRS) states that financial information is helpful if it is relevant and faithfully represented. Its usefulness is enhanced by the extent to which it is comparable, verifiable, timely, and understandable (IFRS, 2021a). To respond to the need for relevant financial information, the International Accounting Standards (IAS)

and IFRS provide general accounting principles, specifically IAS 1 (Presentation of Financial Statements) and the Conceptual Framework in IFRS. The disclosure required by these standards is intended to assist users of financial statements in understanding the assessments made by management and the fundamental causes and significance of uncertainties (Tibiletti et al., 2021).

Conceptual framework and IAS 1

Companies are obligated to disclose in the notes to financial statements specifying any uncertainties that produce doubts about the going concern assumption (Tibiletti et al., 2021b). The IFRS conceptual framework establishes this, which provides that financial statements are typically prepared on the assumption that the reporting entity is a going concern and will continue to operate for the foreseeable future (IFRS, 2021a). Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or cease trading (IFRS, 2021a).

An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so (IFRS, 2021b). IAS 1 states that management shall assess an entity's ability to continue as a going concern when preparing financial statements. In assessing whether the going concern assumption is appropriate, management considers all available information about the future at least twelve months from the end of the reporting period (IFRS, 2021b). "When management is aware in making its assessment of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties" (IFRS, 2021b).

COVID-19 and Going Concern

Companies should be giving greater attention to the evaluation of going concern in response to economic uncertainties and poorer financial performance during the COVID-19 pandemic (Tibiletti et al., 2021).

The coronavirus pandemic resulted in vast economic challenges, with a rising unemployment rate and the less disposable income available to consumers (Oswald, 2021). Consequently, many companies have had to consider whether they can generate sufficient cash flows to support

operations and remain compliant with debt covenants (Đorđević & Đukić, 2021). When companies make estimates and judgments, these issues need to be considered (Oswald, 2021). When a company is preparing its financial statements, it is fundamental that usual operations will continue and the company will not be liquidated (Baskan, 2020). COVID-19 had disrupted businesses for various reasons: people had been forced to work remotely, physical business operations decreased drastically or ceased entirely, and restrictions were imposed on production, trade, and transportation (Baskan, 2020). Consequently, COVID-19 had heightened the importance of the quality of an entity's consideration and disclosure surrounding its ability to operate as a going concern (Susanto & Masli, 2021).

The effect of COVID-19 on financial reporting, specifically regarding the going concern assumption, is topical in financial reporting. The Big Four audit firms had released numerous articles and reports, guiding companies on expected going concern assessments in response to the COVID-19 pandemic. The Independent Regulatory Board of Auditors (IRBA) had also justified that COVID-19 had significantly affected management's going concern assessment (IRBA, 2020). The IRBA had further affirmed that the assessment of going concern disclosure is a fundamental part of the audit (IRBA, 2020).

Theories used to explain going concern disclosure

The following section discusses the most dominant theoretical perspectives: agency and signalling theories, which are utilized to explain going concern disclosure in the literature.

The agency relationship is defined as a contract under which principals engage an agent to perform some service on their behalf (Deegan, 2014). This contract involves delegating some decision-making authority to the agent (Deegan, 2014). Principals and agents are expected to act in their own self-interest towards maximising their own welfare (Deegan, 2014). The agency issue becomes the problem of determining what can be done to induce an agent to act in a manner that is also consistent with maximising the principal's welfare (Deegan, 2014). Information about companies is likely to be more owned by agents (management) rather than principals (shareholders) (Br Ginting & Muda, 2020). This information imbalance can lead

to information asymmetry and cause agency problems where shareholders want high profits or increased investment. In contrast, management wants adequate compensation income from work that has been done (Br Ginting & Muda, 2020). The agency theory suggests that a well-functioning firm is considered to minimise the costs inherent in the principal-agent relationship (agency costs) (Deegan, 2014). To reduce agency costs, a third party such as auditors is required to function as a mediator between the principal (shareholders) and the agent (management) (Br Ginting & Muda, 2020). The auditor will evaluate the financial statements made by the agent about the reasonableness of the going concern assumption in the financial statements, with the result being produced in an audit report (Br Ginting & Muda, 2020). Thus, the rationale for preparing the disclosure of the going concern assumption by management and the audit report is that organisations can reduce the information asymmetry between principals and agents.

Signalling theory, similar to agency theory, is based on the assumption that the information received by each party is not the same, indicating that there is information asymmetry between company management with outside parties (Br Ginting & Muda, 2020). Signalling theory thus suggests that organisations produce financial statements and audit reports to send signals to the market about their social, economic, and environmental performance (Br Ginting & Muda, 2020). Moreover, studies focusing specifically on financial distress point to the severe communication challenges facing firms' management in financial difficulties (Uang et al., 2006). Unfavourable news may itself hasten firm failure (Uang et al., 2006). Additionally, the managers of such firms face more significant risks of replacement, especially if financial distress triggers bankruptcy or takeover (Uang et al., 2006). Due to this information asymmetry problem, stakeholders require independent auditors to function as intermediaries in providing information in audit reports (Br Ginting & Muda, 2020). Auditors are an essential part of signal theory because their opinions in audit reports are significant for users of financial statements (Br Ginting & Muda, 2020). Increased confidence in the going concern assumption contained in financial statements produced by management can be achieved by using independent professionals, such as auditors, who provide audit opinions about the company's financial statements (Br Ginting & Muda, 2020). Regarding the issuance of going concern audit opinions by independent auditors, these opinions will

provide a signal for investors to help determine investment decisions.

Financial Distress: Global Financial Crisis

Financial distress creates risks surrounding business liquidity, revenue, and future operations, impacting an entity's going concern assumption (Carson et al., 2013). The global economy suffered similar devastation in the aftermath of the 2008 global financial crisis.

The 2018 global financial crisis drew attention to how companies reported financial information. IFRS set by the IASB and Generally Accepted Accounting Principles (GAAP) set by the Financial Accounting Standards Board (FASB) were considered for compliance. Companies faced heightened liquidity and credit risks during the financial crisis, and therefore the importance of the going concern assessment and related disclosure was increased (Carson et al., 2013). It was further found that auditors were more likely to issue going concern opinions to companies in the years following the financial crisis in comparison to previous years (Geiger et al., 2014).

Following the global crash in 2008, a study was done to understand how listed companies provide going concern disclosure in a financial and economic crisis (Campra et al., 2010). The authors identified that a financial and economic crisis significantly affects companies and their ability to operate; these entities have difficulty presenting risks and uncertainties in financial statements. A qualitative analysis on the going concern disclosure in financial statements of Italian listed companies was performed. The methodology applied focused on the disclosures provided by companies in the application of IAS 1 presentation disclosures on the entity's ability to continue in respect of the going concern principle. The results showed that only 10% of companies disclosed the existence of significant uncertainties giving rise to doubts about the entity's ability to continue operating in the foreseeable future (Campra et al., 2010). In addition, no companies stated that uncertainties were so significant that the company would be unable to operate within the foreseeable future (Campra et al., 2010).

Prior studies on COVID-19 and going concern disclosures

Several journal articles have been published surrounding similar matters on the relationship between COVID-19 and going concern disclosure. These include a study on the impact of COVID-19 on financial disclosure in Italian listed companies (Tibiletti et al., 2021b) and similar research conducted on the Bulgarian Stock Exchange, which considered the global impact of COVID-19 on the concept of going concern (Savova, 2021).

Tibiletti and others analysed how Italian listed companies addressed the impacts on the going concern assessment caused by the COVID-19 pandemic. Information relating to going concern must be reported in the notes only when management deems that significant doubts surrounding the going concern assumption exist (IFRS, 2021a). Moreover, this study showed that more references were made to the pandemic in the director's reports than in the financial statements' notes (Tibiletti et al., 2021b).

Various studies have been conducted on the influence of COVID-19 on the auditing profession, the accounting profession, and other financial reporting standards.

Although auditing firms have released guidance on the financial reporting matters about COVID-19, there has been minimal published research that has considered the impact of COVID-19 on the going concern assumption of companies in South Africa. Accordingly, this research will expand on the minimal literature surrounding this matter.

Audit Firm Guidance

Major audit firms, including Mazars, Deloitte, Ernst & Young, KPMG, Pricewaterhouse Coopers, and BDO, have identified areas of financial reporting that have been impacted by COVID-19. In these publications, particular consideration has been given to the financial reporting implications of the pandemic on going concern disclosure.

Before exploring the audit companies' publications, revisiting the IFRS requirements for going concern disclosure is worthwhile. There are no specific disclosure requirements relating to going concern in IAS 1 for a profitable company with no liquidity concerns and no significant doubts about its ability to continue as a going concern (IFRS, 2021c). However, if management has concluded that preparing the

financial statements on a going concern basis is appropriate, but there are material uncertainties relating to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern, paragraph 25 of IAS 1 requires a company to disclose the material uncertainties relating to its ability to continue as a going concern (IFRS, 2021c). If the going concern basis conclusion is likely to have involved significant judgment, then in addition to disclosing the material uncertainties, the company is also required to apply the disclosure requirements in IAS 1 paragraph 122, which considers what information is material about (a) the events or conditions that cast significant doubt upon the entity's ability to continue as a going concern and (b) the feasibility and effectiveness of management's actions or plans in response to those events or conditions (IFRS, 2021c).

In an article regarding the financial reporting implications of COVID-19, Mazars indicates the need for companies to monitor developments surrounding COVID-19 uncertainty to ensure the provision of meaningful financial statement disclosure (Mazars, 2020).

Deloitte published a report titled 'COVID-19: Accounting considerations', which outlines how the pandemic affected economic and financial markets due to the challenging economic conditions faced by industries and governments. Outcomes often associated with general economic downturn have been exacerbated, including financial market volatility, market value erosion, credit deterioration, liquidity concerns, increased unemployment, declined discretionary spending, and production decreases in response to decreased demand (Deloitte, 2021). Deloitte also identified industries that were severely affected by COVID-19 and that these should be given more consideration towards going concern assessments (Deloitte, 2021). The article advises on the going concern accounting considerations by providing detail on what matters companies need to consider when making this assessment. When events and conditions are identified, entities must provide comprehensive disclosures in annual and interim financial statements that raise substantial doubt about the entity's ability to continue as a going concern (Deloitte, 2021).

Deloitte has issued the following COVID-19 disclosure guidance to entities when material uncertainties exist: there should be explicit disclosure that there exist material

uncertainties as to whether the entity can continue to operate as a going concern; the disclosures should detail the events or conditions that indicate that there is material uncertainty; the disclosures should detail management's plans or options available to them to mitigate the effect of the events or conditions (Deloitte, 2020).

Similarly, KPMG provides the following guidance on what management needs to disclose after assessing the company's ability to continue operating as a going concern (KPMG, 2020):

- Where management has significant doubt about the entity's ability to continue as a going concern, disclose the uncertainties, even if it concludes that no material uncertainty exists.
- When material uncertainty exists, disclose that the entity's continuing ability as a going concern is subject to material uncertainty.
- Additional line items on the face of the profit and loss statement may be included to depict the entity's performance (e.g., impairment adjustment).
- Disclose changes in financial risks.
- Additional disclosures about liquidity risk might be needed when COVID-19 has affected cash flows from operations or the ability to access cash in other ways.
- Update management's analysis of principal risks and uncertainties that could affect the amounts reported in the financial statements.
- Additional disclosures in the board's report or an annual report (other than financial statements and auditor's report) must be provided.

Ernst & Young has further mentioned that it should be made clear to readers of financial statements that the going concern assumption is subject to material uncertainties (Ernst & Young Global Limited, 2020). Where significant judgement is necessary given the nature of COVID-19 and related uncertainties, the level of going concern disclosure depends on the facts and circumstances of an entity's position (Ernst & Young Global Limited, 2020). As a result, going concern disclosure, particularly under circumstances of financial distress, is expected to vary between companies and industries (Ernst & Young Global Limited, 2020).

Management may conclude that the going concern basis is appropriate while being aware of material uncertainties related to events (such as COVID-19 consequences) that may cast significant doubt on the entity's ability to continue as a

going concern (PwC, 2020). In such circumstances, the company should disclose the following: those uncertainties; management's plans to deal with these events or conditions; that there is material uncertainty related to events that may cast significant doubt on the entity's ability to continue as a going concern (PwC, 2020).

In a report titled 'COVID-19 impacts on Going Concern Assessments', BDO provides additional guidance to companies on assessing going concern (BDO, 2020). The first step is to assess whether there is significant doubt that an entity will not be able to meet its obligations during the assessment period, i.e., the next twelve months (BDO, 2020). If there is significant doubt, it should be identified whether it is probable that management plans will be effectively implemented and alleviate the factors casting significant doubt (BDO, 2020). If it is probable, disclosure that significant doubt exists needs to be given, and the going concern basis can be applied until liquidation is imminent (BDO, 2020). If substantial doubt does not exist, management's plans to alleviate that doubt must be disclosed (BDO, 2020).

The audit firms are saying the same as IFRS, but also expanding on that.

METHODOLOGY

This qualitative study will use content analysis to inspect the going concern disclosure presented by listed companies. Particular regard has been given to whether specific consideration for COVID-19 has been given in the director's report, auditor's report, and the going concern note disclosure in financial statements.

Sample examined

This research is conducted on companies listed on the Johannesburg Stock Exchange (JSE). As per the JSE listing requirements, companies listed on the JSE must comply with IFRS and therefore related going concern reporting standards (*JSE Limited Listings Requirements Service Issue 31*, 2024). Furthermore, these companies must be audited, which ensures that disclosures within the financial reports are reliable and free from material misstatement (Companies Act 2008 (RSA)).

In March 2020, the World Health Organisation declared COVID-19 to be a global pandemic. (PwC, 2020). Therefore, company reports published after this date should consider the potential impact of COVID-19 on going concern (PwC, 2020). Hence, the data source is limited to companies' annual reports that have issued audited financials following March 2020 up until March 2021. Therefore, the sample of companies was extracted from the 336 companies listed on the JSE on 31 December 2020.

The sample selected is the entire FTSE/JSE Africa All Shares Index, which is a market capitalization-weighted index. The sample comprises of 141 companies which made up the entire FTSE/JSE Africa All Shares Index, out of the population of 336 company listings on the JSE as at 31 December 2020. The 141 companies included in this index constitute the top 99% of the total pre-free-float market capitalization of all listed companies on the JSE. Therefore, this sample substantially represents the JSE market.

Research methodology

Disclosure of the going concern assumption is reported in the annual financial statements of listed entities. These annual financial statements are accessible by the general public of company websites. One of the most used methods in financial reporting research is content analysis (Krippendorff, 2004). Content analysis allows for sorting qualitative and quantitative data into predefined categories to identify patterns within the information. This research has applied this method to examine the disclosure in financial reports. Therefore, the research methodology consists of a content analysis of the annual reports of JSE-listed companies. The primary data used has been manually sourced from the respective websites of each company in the sample. The specific content of reports to be analysed will include the following to the extent that the going concern assumption about COVID-19 is discussed: going concern note disclosure, independent auditor's report, director's report, and the internal audit and risk committee report. This exploration will shed light on how and where companies present relevant information on the topic to stakeholders.

In line with the criteria established in IFRS and audit firm disclosure requirements discussed above, the objective of this method is to establish how companies are reporting on the going concern assumption in response to COVID-19

disruptions. The analysis to be conducted in this study has been structured using the questions below, which have been drafted from the financial reporting guidance given by IFRS and audit firms. The primary purpose is to identify whether and where going concern has been disclosed and whether and where consideration has been given to COVID-19. These questions will be used to identify relevant data in the annual financial reports of each company in the sample.

- Has the company disclosed that the financial statements have been prepared on a going concern basis (per IFRS Conceptual framework paragraph 3.9)?
- What area of the financial statements present going concern disclosure? These areas consist of the director's report, auditor's report, independent auditor's report, and notes to financial statements.
- Has COVID-19 been considered in assessing going concern by both management and auditors?
- Have auditors reported the effect of COVID-19 on the going concern assessment as a key audit matter?
- Has the company disclosed that material uncertainties that cast significant doubt upon the company's ability to continue as a going concern exists, and:
 - Have the material uncertainties been disclosed as being related to COVID-19, and
 - Has management disclosed its plans to deal with these events/conditions that give rise to the uncertainty?

It is also deemed helpful to establish whether the respective companies made a total comprehensive income gain or loss during the financial year and whether revenue increased or decreased. This allows for examining the interaction between going concern disclosure and quantitative financial results.

The director's and independent auditor's reports were read to identify any references to COVID-19. The notes to financial statements were read in the sections that made specific mention of going concern. A keyword search function has been applied to identify relevant information to the study using "going concern" as the keyword. This identifies the sections in which "going concern" is mentioned in reports. Consequently, these disclosures have been analysed to answer the questions above.

Data has been recorded using an Excel spreadsheet and a simplified coding system to record the findings. The sample of companies was listed in a column, and the adjacent

column headings were as follows: Going concern assessment performed in Director's report, Note disclosure, Either note disclosure or director's report, Both note disclosure and director's report, Auditor's report; COVID-19 mentioned in Director's report, Note disclosure, Auditor's report; Key audit matter in Auditor report; Revenue increase; Profit; Revenue decrease and COVID-19 consideration in going concern assessment; Loss and COVID-19 consideration in going concern assessment. If a column criterion was met for each company, then a "1" was inserted into the appropriate cell, and a "0" was used if the criteria were not met. If revenue increased in the company's year of assessment, a "1" was inserted into the appropriate cell, and a "0" was used if revenue decreased. The same method was applied if the company made a total comprehensive income profit or loss. In the final row, the above rows could be added to achieve a total number of companies that satisfied or did not satisfy the criteria. Additional columns were used to keep track of the companies' respective year-ends, and any other information disclosed in the audited financial statements presented to be significant in relation to going concern and COVID-19.

LIMITATIONS

This research is undermined by several associated limitations discussed here.

When an entity applies the disclosure requirements in paragraph 25 of IAS 1, this requires the exercise of professional judgment (IFRS, 2021b). Therefore, there invariably exists an element of judgment that informs the relevant going concern disclosures that have been analysed. These disclosures cannot be guaranteed to be a perfectly accurate reflection of an entity's financial position. Additionally, a framework of going concern criteria has been applied to assess the going concern disclosure of companies. This framework is drawn from accounting standards and guidance from audit firms requiring interpretation. Further, whether disclosure criteria are met requires subjective interpretation due to the qualitative nature of data gathered.

Lastly, given that the data collection and analysis were executed manually, there is a risk that human error has impacted the quality of the findings.

Despite these limitations, the proposed methodology can be considered appropriate as the limitations do not prevent the study from providing meaningful results. The analysis avoids bias by applying simplistic criteria in the methodology and sampling a significant portion of the Johannesburg Stock Exchange.

RESULTS AND DISCUSSION

This section will report the results found in applying the methodology to the respective companies. A discussion on the findings of these results has been drawn from there.

The first question outlined ascertains whether each company has disclosed that its financial statements were prepared on the going concern basis per the financial reporting requirements discussed previously. Table 1 shows how many companies provided going concern disclosure in their annual financial statements, whether in the director's report, audit committee report, or note disclosure.

Table 1: Number of companies providing going concern disclosure in their annual financial statements

	Number of companies	Percentage of companies
Going concern disclosure provided	137	97%
Going concern disclosure not provided	4	3%
Total	141	100%

The table above shows that 97% of the companies analysed provided going concern disclosure. As this is a requirement of IFRS and, therefore, a JSE listing requirement, it is expected that all companies should be disclosing on going concern per paragraph 26 of IAS 1. It is not surprising that only 3% have failed to comply.

The next step in this research identifies the areas of the financial statements within which going concern disclosure has been given. These areas include the director's report, audit and risk committee report, and notes to financial statements. Of the 137 companies that provide going concern disclosure, table 2 shows where this disclosure appears in the annual financial statements.

Table 2: Areas in annual financial statements within which going concern disclosure has been presented

	Number of companies	Percentage of companies
Director's report/Audit committee report	131	96%
Note disclosure	123	90%
Both director's report and note disclosure	119	87%
Total companies providing going concern disclosure	137	100%

This data highlights how companies provide transparency of information to users of financial statements. The table shows that going concern disclosure is more likely to appear in the director's or audit committee's reports than in the notes to the financial statements, but only by 6%. The figure of 87% demonstrates that most companies provide going concern disclosure in both the notes to financial statements and the director's report.

The third matter to review is whether COVID-19 has been considered in assessing going concern. Table 3 shows the percentage of companies that have considered COVID-19 in their going concern assessments and in what section of the annual financial statements this consideration is provided. Table 3 results indicate that of the companies providing going concern disclosure, 75% of these are considering the impact of COVID-19 in the assessment thereof, which is a significant amount. Moreover, this consideration for how COVID-19 has been taken into account is more likely to appear in the note disclosure (70% likelihood) than in the director's or audit committee's report (48% likelihood).

Table 3: Companies considering COVID-19 in their going concern disclosure

	Companies with going concern disclosure	Companies considering COVID-19 in the assessment	Percentage
Director's/Audit committee report	131	63	48%
Note disclosure	123	86	70%
Total companies providing going concern disclosure	137	103	75%

Within the going concern disclosure provided in the annual financial statements, management provided various justifications for the impacts of the COVID-19 pandemic. The following factors frequently appeared: reduced production due to work stoppages; lower sales volumes; poorer commodity prices; lower liquidity in the debt market (increasing the cost of debt); government-enforced restrictions such as social distancing, restrictions of gatherings, continuous closure of restaurants and bars and the general impact of the weak economy on customers' disposable incomes.

Consequently, directors and management disclosed various resources that were utilised to assess going concern viability to monitor the effects of COVID-19. These resources included forecasts, sufficient financial resources to meet obligations as they fall due, availability of unutilised funding facilities, capital management, funding and liquidity requirements, and profitability and solvency projections. Due to government restrictions and economic uncertainty resulting from the pandemic, several companies also performed additional stress testing to assess going concern. As part of the planning process, some companies assessed a downside scenario model that factored in the second wave of infections, with no economic growth until 2022 and lower expected market levels.

The next section establishes whether the respective companies made a profit/loss during the financial year and whether revenue increased/decreased. This allows for examining the interaction between going concern disclosure and financial results. Table 4 presents the percentage of companies that reported a decrease in revenue and considered the impact of COVID-19 on their assessment of going concern.

Table 4: Companies reporting a decrease in revenue in addition to considering the impact of COVID-19 in going concern assessments

Statement of profit or loss and other comprehensive income	Number of companies	Percentage of companies
Revenue decrease (of 141 companies analysed)	71	50%
Impact of COVID-19 on assessment of going concern considered (of 71 companies with revenue decrease)	61	86%

The figures above reveal that 50% of companies suffered a decrease in revenue in the year of assessment following the pandemic outbreak. Of these companies that reported a decrease in revenue, 86% considered the impact of COVID-19 in their assessment of going concern. This statistic informs that companies taking COVID-19 into account when assessing going concern were more likely to do so, having reported a decrease in revenue. This is deduced from the 75% of the total companies that considered the impact of COVID-19 in their going assessments (see section 4.2), which is less than the 86% of companies above that have considered the impact of COVID-19 in addition to reporting decreased revenue.

Table 5 shows the percentage of companies that reported a total comprehensive income loss for the financial year and the impact of COVID-19 on their assessment of going concern.

Table 5: Companies reporting a loss and considering the impact of COVID-19 on their assessment of going concern

Statement of profit or loss and other comprehensive income	Number of companies	Percentage of companies
Loss for the year (of 141 companies analysed)	97	69%
Impact of COVID-19 on assessment of going concern considered (of 97 companies with reported loss)	37	38%

These results reveal that of the 69% of companies that reported a total comprehensive income loss for the year, 38% considered the impact of COVID-19 on their assessment of going concern. Comparing these numbers to those in table 4 indicates that companies with revenue decreases were more likely to assess the impact of COVID-19 on their going

concern viability than companies who reported a total comprehensive loss. It may be expected that companies reporting a loss during the pandemic would more than likely be considering the impact of COVID-19 on their ability to continue as a going concern. Therefore, to prevent this statistic from being misleading, it should be noted that most losses were a result of abnormal impairments and fair value losses on investments. These line items on the statement of profit or loss and other comprehensive income are non-cash flow items. However, they were proportionately significant in contributing to the financial loss positions of companies. It is evident from the findings presented in Tables 4 and 5 that management deemed revenue decreases to be more significant to going concern assessments than total comprehensive income losses.

The following tables present the extent to which auditors have commented on the effect of COVID-19 on the going concern assessment and reported it as a key audit matter.

Table 6: Percentage of auditors that reviewed management's going concern assessment in the independent auditor's report

Independent Auditor's Report	Companies	Percentage
Acknowledgement that going concern assumption has been assessed	135	96%
No acknowledgement that going concern assumption has been assessed	6	4%
Total companies analysed	141	100%

This table shows that of the 141 companies analysed, 96% were evaluated on their management's going concern assessment in the Independent Auditor's Report. This high ratio is expected given that it is standard practice for auditors to assess management's going concern statement.

A key consideration is to identify the extent to which COVID-19 is being considered in auditors' assessments of going concern. This is given in table 7.

Table 7: Independent auditors considering COVID-19 in going concern assessments

Independent Auditor's Report	Companies	Percentage
Consideration for COVID-19 impact on going concern assessment	21	16%
No consideration for COVID-19 impact on going concern assessment	114	84%
Total auditor's assessing going concern in audit report	135	100%

These results exhibit that a mere 16% of auditors considered whether COVID-19 had impacted management's assessment of going concern in the Independent Auditor's Report. In all of the audit reports, the auditor's statement was to conclude on the appropriateness of the directors' use of the going concern basis of accounting based on the audit evidence obtained. There were very few cases where the auditor went beyond this statement by discussing the implications of COVID-19.

Table 8 presents the percentage of auditors reporting the effect of COVID-19 on the going concern assumption of a company as a key audit matter in the Independent Auditor's Report.

Table 8: Auditors reporting COVID-19 and the going concern assumption as a key audit matter

Auditor's report	Number of companies	Percentage of companies
Key audit matter	11	8%
Total auditors assessing going concern in audit report	135	100%

These results show that 8% of companies' independent auditors reported the impact of COVID-19 on the company's ability to continue as a going concern as a key audit matter. In each of the 11 cases, the auditor evaluated the company's going concern assessment and whether it addressed the relevant threats posed by the pandemic.

In performing the data analysis, it was identified that a very small number of companies disclosed that there existed material uncertainties casting significant doubt upon the company's ability to continue as a going concern. The majority of these material uncertainties were disclosed in relation to COVID-19. However, although companies

reported COVID-19 risks on business operations, in every case, management disclosed its plans to deal with the events or conditions giving rise to the uncertainty. Such action included asset disposals, refinancing of secured debt, obtaining covenant waivers, renegotiation with creditors, reduced capital expenditure, and exiting non-core business activities.

CONCLUSION

The COVID-19 pandemic has had significant impacts on the economy, and the severity and duration of this impact have created an unprecedented level of financial and operational uncertainty. Therefore, considerable attention by management, directors, and auditors has been necessary for assessing the impact of the pandemic on the appropriateness of the going concern assumption used in preparing financial statements.

This research assessed the going concern disclosure of JSE-listed companies regarding the effects of COVID-19. This study demonstrates that the pandemic has impacted this area of financial reporting. It has been found that 50% of companies experienced a revenue decline, and 69% of companies reported a total comprehensive income decrease. This confirms that the pandemic has negatively affected business operations in the 2020/2021 financial years. Consequently, management and directors have considered this uncertainty when performing going concern assessments.

The analysis provides further insights into how COVID-19 has impacted financial reporting and the disclosure provided by South African listed companies. A majority of companies, a significant 75%, have considered the impact of COVID-19 on the going concern assessment. This was especially prevalent in circumstances where revenue decreased from the previous year, as 86% of companies reporting a revenue decrease were also assessing how COVID-19 affected the going concern assumption. In contrast, a small proportion of independent auditors expressly considered COVID-19 in evaluating managements' going concern assumptions. No consideration for the impact of COVID-19 on going concern assessments was given by 85% of the audits. Furthermore, only 8% of companies analysed had going concern about COVID-19 implications reported as a key audit matter by independent auditors.

The data showed that there are no particular inconsistencies in respect of going concern disclosure with regards to the applicable financial reporting standards. None of the companies reported that material uncertainties existed to cast doubt on the company's ability to continue as a going concern without deliberating mitigating factors and management's plans to address these uncertainties.

The study results suggest that most companies had indeed taken the implications of COVID-19 financial crisis into account when preparing financial statements. At the same time, audit reports had much less disclosure for Covid-19 financial crisis consideration in their audit reports.

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Risk-Based Internal Audit Practices in a Retail Organisation

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Purpose: This study aims to understand how risk-based internal audit (RBIA) is utilised and implemented at a large retail business in Cape Town, South Africa and how it is used for audit planning purposes.

Design/methodology/approach: Case study research was used to better understand the practice of RBIA. Semi-structured interviews were conducted with internal auditors, managers, and the chief audit executive (CAE) of the business. Interview transcripts were inductively coded to identify overarching themes.

Findings: It was found that RBIA is used to some extent, however, there seems to be a lack of evaluation of organisational risk maturity before RBIA plans are prepared, which could limit the effectiveness of internal audit activities. The study does not imply that results will be generalisable to all South African retail businesses or other industries. However, the study serves as an exploration into the topic for consideration by other researchers as well as for the improvement of RBIA in practice.

Originality/contribution: Since the retail sector plays a critical role in the South African economy, this research sought to contribute to the existing body of knowledge regarding RBIA of retail businesses. Unique access to understanding the real workings of an internal audit function (IAF) was obtained. The collected data could help practitioners improve their audit approach for increased audit effectiveness. Internal auditors could better understand their contribution to the business and help retailers see the benefit of an IAF.

Keyword: *Risk-based internal audit, internal auditing, methodology, retail industry, South Africa*

INTRODUCTION

In today's corporate environment, organisations are exposed to some level of risk, which can prevent them from achieving their goals and objectives if the risk materialises. Organisations put risk management processes in place to help them mitigate risks, consequently assisting in achieving their objectives. Internal audit functions (IAFs) can assist management in this process by using a risk-based (RBIA) approach, which could also eliminate inefficiencies in the audit process. Consequently, over time, internal audit methodologies have developed and have become more risk-focused (as opposed to compliance-based) to align with business risk management practices (Lenz & Hahn, 2015; IIA, 2017).

The Institute of Internal Auditors (IIA)'s International Standards for the Professional Practice of Internal Auditing (ISPPIA) requires IAFs to use a risk-based audit plan (IIA, 2017). However, limited guidance on risk-based internal audit (RBIA) and the RBIA process is

provided in the ISPPIA. An RBIA methodology is relevant and necessary for both in-house and outsourced IAFs, as the ISPPIA mandates it. In-house functions might need more guidance on implementing RBIA due to less access to technical teams and structured methodologies than a large, outsourced firm. Thus, in-house IAFs might need more detailed guidance on implementing RBIA.

The RBIA methodology is deemed necessary to ensure the effectiveness and efficiency of internal audit practices (PwC, 2016). This has been confirmed by various professional and academic studies conducted within various industries (Koutoupis & Tsamis, 2009; Coetzee, 2016; Coetzee & Erasmus, 2017; Erasmus & Coetzee, 2018; Koutoupis, Panagiotis, Ioannis & Dimitrios 2020). Literature suggests that an IAF's value-adding ability correlates to their RBIA plan's effectiveness (KPMG, 2018). From an academic viewpoint, Lenz and Hahn (2015) state that the IAF is effective when an RBIA methodology is used. Additionally, RBIA is associated with the IAF's

effectiveness in contributing to achieving business objectives by focusing audit activities on material risk areas (Lenz & Hahn, 2015). PricewaterhouseCoopers (PwC, 2016) and Botha and Wilkinson (2019) found that an RBIA approach is also perceived to add value to business activities.

However, questions have been raised about whether the RBIA methodology can be indicative in evaluating the effectiveness of the IAF (Coetzee, 2010; Chambers & McDonald, 2013; Lenz & Hahn, 2015; Estes, 2017). Regardless of the studies that found that RBIA contributes to the effectiveness of the IAF, recently, in South Africa, the purpose and effectiveness of internal auditing have been questioned, specifically at retail companies where corporate failures took place (Businesstech, 2019). This points to a need for research on the internal audit methodologies employed in practice and the effectiveness of IAFs, especially at retail entities in South Africa. The retail industry, therefore, provides a unique setting to investigate the extent of using RBIA on the effectiveness of the IAF as a service to the business.

Stemming from the above, this study's research objective is two-pronged: 1) to determine to what extent and how RBIA is implemented within retail organisations in practice, and 2) to determine how the IAF uses RBIA for audit planning activities. A single case study at an internal audit department of a retail business in Cape Town, South Africa, was conducted to better understand this phenomenon.

The study contributes to the literature as the data gathered can serve as a basis for theoretical insight into how IAFs practically implement RBIA and guide practitioners to improve and strengthen their audit methodology to increase audit effectiveness. In addition, the research can help IAFs better understand the importance of the audit methodologies in use. Internal auditors at retailers can consider the role of RBIA in improving the IAF's effectiveness. Therefore, the study could contribute to audit practices in retail businesses, improving IAF effectiveness. Lastly, the

study could help internal auditors better understand their contribution to the business as an internal service provider and help retailers see the benefit of an IAF.

LITERATURE REVIEW

Definition of risk-based internal auditing

RBIA is a methodology utilised by IAFs, ensuring the alignment of internal audit activities to an organisation's strategies, business objectives, associated risks, and risk management practices (IIA, 2017; Heldifanny & Tobing, 2019). RBIA is also an approach or process used during audit activities that addresses areas that pose the most prominent risks to the organisation (Griffiths, 2018; Zatsarinnaya *et al.*, 2021). The IIA's ISPPA requires IAFs to follow a risk-based audit approach when providing assurance services. The RBIA methodology is an internal audit methodology that ensures alignment of the IAF and its activities with the organisation's strategies, business objectives, associated risks, and risk management framework (IIA, 2017; Heldifanny & Tobing, 2019). Additionally, the King IV Report on Corporate Governance in South Africa (King IV) places a strong emphasis on enterprise-wide risk management to support organisations in achieving their objectives and also requires an internal audit to follow a risk-based plan (Institute of Directors South Africa [IoDSA], 2016). An internal audit approach aligned to organisational risk management practices is encouraged and beneficial. Therefore, the RBIA methodology is deemed necessary to ensure the effectiveness and efficiency of internal audit practices (PwC, 2016). This has been confirmed by various professional and academic studies conducted within multiple industries (Koutoupis & Tsamis, 2009; Coetzee, 2016; Coetzee & Erasmus, 2017; Erasmus & Coetzee, 2018; Heldifanny & Tobing, 2019; Koutoupis *et al.*, 2020).

The background of risk-based internal auditing

The ISPPIA provides some guidance on RBIA but does not provide detailed steps or guidance on operationalising the RBIA approach or audit plan. According to the ISPPIA, the chief audit executive (CAE) “must” formulate a risk-based plan to determine the priorities of the IAF (IIA, 2017). Standard, 2010.A1 prescribes that the CAE should institute an RBIA plan aligned with the organisation’s goals and objectives (IIA, 2017). During planning, the CAE must understand the organisation’s strategies, objectives, and identified risks (IIA, 2017; Mody, 2018). Furthermore, the CAE must consult with the organisation’s senior management and board of directors to understand the risk management processes. Per standard 2010.A2, the CAE must connect with senior management and the board to understand and ensure alignment with the organisation’s goals, key objectives, risk management, and control processes (IIA, 2017). In addition, the IIA requires an IAF to follow a risk-based audit approach to determine the organisation’s needs in meeting its objectives (IIA, 2017), as RBIA can enhance a business’ profitability (Griffiths, 2018). The standards also prescribe that internal audit engagements must be built on a documented risk assessment (IIA, 2017). Furthermore, the nature of the internal audit engagement must be based on a risk-based approach (IIA, 2017). The risk-based audit approach effectively ensures best practices to identify internal control gaps and detect and mitigate risks threatening the organisation’s operations, goals, and objectives. Therefore, the RBIA methodology is deemed necessary to ensure the effectiveness and efficiency of internal audit practices (Koutoupis & Tsamis, 2009; Coetzee, 2016; PWC, 2016; Coetzee & Erasmus, 2017; IIA, 2017; Erasmus & Coetzee, 2018; Koutoupis *et al.*, 2020; Erlina *et al.*, 2020).

RBIA methodology allows the IAF to ensure the effectiveness of risk management, whereas the traditional or compliance-based audit methodology only provides assurance of the control environment and overlooks the organisation’s risk management

practices to some extent (Mody, 2018; Zatsarinnaya *et al.*, 2021). Additionally, a study by Lois *et al.* (2021) shows that some organisations have shifted their focus from compliance-based to risk-based audits. Focusing on a control-based audit methodology could derail the auditor’s focus from the organisation’s objectives and high risks, as risks could be disregarded during audit activities (Zatsarinnaya *et al.*, 2021). RBIA aims to avoid a narrow-focused audit approach to cover key risk areas comprehensively (IIA-Australia, 2020).

Moreover, the role of RBIA helps to avoid surprises associated with risks and can protect the image and social responsibility of the business (Griffiths, 2018). As the term “risk management” is expressed in the definition of RBIA, it should be deemed an important concept during an RBIA activity (IIA, 2017). Additionally, one of the roles of RBIA is to assist in the effectiveness of the IAF (Erlina *et al.*, 2020). The success of the effectiveness and value-adding ability of the IAF rests on a sound and effective RBIA plan (KPMG, 2018; Lois *et al.*, 2021). Moreover, as risks constantly emerge in the organisation, the CAE should adjust the audit plan to detect and mitigate emerging risks (Estes, 2017; IIA, 2017; Mody, 2018) that could threaten the organisation (Coetzee & Lubbe, 2014). Subsequently, the IAF should be able to audit at the speed of risks emerging, thus contributing to the effectiveness of the IAF (Chambers, 2020). Internal audit’s effectiveness and value-adding ability rely on its ability to use a risk-based audit approach (IIA, 2017; Griffiths, 2018; Çetin & Pamukcu, 2019). Adopting a risk-based audit approach helps address emerging risks, thus improving business processes and meeting an organisation’s goals and objectives (Nabulsi & Hani, 2018; Lois *et al.*, 2021).

Advantages of risk-based internal auditing

The literature suggests that the IAF operates more effectively if an RBIA approach is used, which, in turn, should increase audit effectiveness (Sarens *et al.*, 2012; Coetzee & Lubbe, 2014; Coetzee & Erasmus, 2017; Lenz, Sarens & Jeppesen, 2018; Mody, 2018; Çetin &

Pamukcu, 2019; Erlina *et al.*, 2020; IIA-Australia, 2020; Umaralievich & Jurayevna, 2020; Lois *et al.*, 2021; Zatsarinnaya *et al.*, 2021). Koutoupis *et al.* (2020) concluded that an RBIA approach is essential for effectively functioning IAFs in an organisation. Additionally, an RBIA approach contributes positively to the independence and objectivity of the organisation being audited (Klamut, 2018). Some other advantages of an RBIA approach include (Ideagen.com, 2022):

- Enhanced legal and regulatory compliance for increased compliance risk detection,
- A better understanding of the risk management framework,
- Effective use of audit resources,
- Better contribution to business objectives, and
- Opportunity to utilise IT software for increased audit productivity and effectiveness.

Moreover, an RBIA contributes to mitigating substantial risk and increases the efficiency of audit engagements (Drogalas & Siopi, 2017; Çetin & Pamukcu, 2019; Koutoupis *et al.*, 2020; IIA-Australia, 2020; Lois *et al.*, 2021; Zatsarinnaya *et al.*, 2021). RBIA creates efficiency by increasing work performance and contributes to positive relationships with service providers (Lenz *et al.*, 2018; Çetin & Pamukcu, 2019). It is a powerful tool to ensure the IAF remains effective (IIA-Australia, 2020).

Limitations of risk-based internal auditing

Although the literature suggests that an RBIA methodology has many advantages, as averred above (Sarens *et al.*, 2012; Coetzee & Lubbe, 2014; Coetzee & Erasmus, 2017; Lenz *et al.*, 2018; Mody, 2018; Çetin & Pamukcu, 2019; Erlina *et al.*, 2020; Lois, Drogalas, Karagiorgos & Tsikalakis, 2020; Umaralievich & Jurayevna, 2020). However, a few articles highlight the potential disadvantages of an RBIA methodology (Lenz *et al.*, 2018; IIA-Australia, 2020). Potential disadvantages may include compliance with laws and regulations may not be covered at all in the audit plan, as the aim is only to cover high risks (IIA-Australia,

2020); it may be challenging to effectively utilise a risk-based audit methodology if auditors are not appropriately skilled or qualified (IIA-Australia, 2020). Furthermore, important areas which may affect business objectives that are not linked with risks might be missed (IIA-Australia, 2020), and budget constraints relating to the limitation of visits whereby a location was flagged as high risk, but due to its costly travel nature, the site cannot be visited (Lenz *et al.*, 2018).

Notwithstanding RBIA's limitations, numerous benefits to the organisation and IAF are associated with RBIA, as expanded upon below.

Effectiveness of risk-based internal auditing

An RBIA approach contributes positively to the independence and objectivity of the organisation being audited (Klamut, 2018). The IAF serves as an independent and objective service provider to its organisation; thus, risk management in the organisation is systematically addressed and supported by the IAF (Lenz & Hahm, 2015; IIA, 2017; KPMG, 2018; Nabulsi & Hani, 2018; Çetin & Pamukcu, 2019). Because risks are thoroughly classified and reported, management's response to risk is effective concerning the organisation's appetite for risk (Mody, 2018; Zatsarinnaya *et al.*, 2021). Therefore, when an RBIA is followed, internal audit activities and internal auditors are significantly connected with risk management processes (Drogalas & Siopi, 2017). A risk-driven approach is more effective than a procedure-driven one since the audit focuses on high-risk areas (Drogalas & Siopi, 2017; Çetin & Pamukcu, 2019; Zatsarinnaya *et al.*, 2021).

Risk-based internal audit process and engagements

The RBIA approach and process are not well defined in the existing literature besides the guidance provided in a white paper by the Chartered IIA (CIIA, 2014). However, some studies point to steps within the RBIA process; for example, during the planning stage of an audit engagement, the organisational risk

management processes in place must be considered by the IAF (IIA, 2017; Mody, 2018; Lois *et al.*, 2021; Zatsarinnaya *et al.*, 2021). During the fieldwork stage of the audit activity, internal auditors must utilise their knowledge of risks gained through exposure to the risk management process (IIA, 2017; KPMG, 2018). The initiative of an effective risk-based audit engagement is to have a comprehensive view of the risks that threaten the organisation's goals (Çetin & Pamukcu, 2019; IIA-Australia, 2020). For the RBIA engagement to transpire, a formalised risk assessment must be documented annually (IIA, 2017). From this risk assessment, a comprehensive risk-based audit plan is developed (IIA, 2017). Therefore, an RBIA-driven approach focuses on high-risk areas (Drogalas & Siopi, 2017; Çetin & Pamukcu, 2019), which subsequently contributes to mitigating substantial risk and increases the efficiency of audit engagements (Çetin & Pamukcu, 2019).

The CIIA (2014) describes three steps in the RBIA process for successfully implementing an RBIA approach. The risk maturity assessment step is the first step of the RBIA methodology and involves understanding how the board and management identify, assess, manage, and monitor risks. Risk maturity is measured by evaluating the organisation's level of risk identification, assessment, management, and monitoring risks. Level 1 denotes a minimal or non-existent risk management function, whereas level 5 denotes a prominent risk management function compliant with the organisation's criteria (RIMS, 2006). The RBIA process starts with evaluating risk maturity, which sets the basis for the subsequent steps. RBIA is pertinently dependent on the organisation achieving a particular level of risk maturity. This directly impacts the extent to which an RBIA methodology contributes to the effectiveness of the IAF within an organisation (CIIA, 2014).

The production of the audit plan is the second step during RBIA (CIIA, 2014). Planning usually occurs annually and entails selecting areas requiring objective assurance on management and reporting key risks. This

step includes the audit committee advising on the assurance requirements. Management also utilises a risk register for audit planning purposes. Thereafter, the audit plan is executed to commence individual audit assignments as the third step in the RBIA process. Individualised audits involve communication and reporting audit results and recommendations (CIIA, 2014). This includes checking that management has sufficiently managed inherent and residual risks and that there is an alignment between residual risk and risk appetite.

The RBIA process allows IAFs to assure the board that controls are in place to manage inherent risks and that they operate effectively (CIIA, 2014). It also links the IAF with the organisation's overall risk management framework. However, when the organisation does not have a strong risk management process, RBIA cannot be implemented to its fullest extent. In addition, RBIA strengthens the boards and management's capacity to assume responsibility for managing risk in their organisation (CIIA, 2014; Lois *et al.*, 2021). It focuses on auditing risk management, not the risks themselves (CIIA, 2014).

The implementation of risk-based internal audit in the retail industry

The retail industry has grown in the last decade, and so too have risks that are inherent to the retail industry (Lebaron & Lister, 2015). Risk-based auditing is a growing mechanism that mediates an organisation's inherent risks.

Furthermore, implementing RBIA ensures the timely identification and mitigation of emerging risks (Lois *et al.*, 2021). However, applying the statements above to the South African retail industry is unclear. Further research into the effectiveness of an IAF in the retail industry should be considered, as this industry has grown in the last decade, resulting in increased risks (Lebaron & Lister, 2015). Prior studies on RBIA focused on the banking industry (Koutoupis & Tsamis, 2009), shipping (Koutoupis *et al.*, 2020), and the public sector

(Coetzee, 2016; Coetzee & Erasmus, 2017; Erasmus & Coetzee, 2018; Zatsarinnaya *et al.*, 2021). Consequently, more knowledge is needed on the effect of RBIA and how RBIA is implemented, especially in the retail industry.

RESEARCH THEORY

The study is framed and informed by the resource dependency theory. Resource dependency theory describes how an organisation's behaviour is affected by its limited external resources. Resource dependency theory addresses how organisations respond to limited financial and material resources by managing their dependence on external environments, including people and groups outside the organisation (Coetzee, 2010; Mainardes, Alves & Raposo, 2011). The use of RBIA methodology by the IAF to enhance audit effectiveness is understood from the perspective of resource dependency theory, according to which limited resources are managed in such a way as to ensure the effectiveness of business functions. Furthermore, within the organisation, the IAF can be seen as a 'tool' to assist management in enhancing the use of limited organisational resources. Therefore, the relationship between RBIA, which is seen as a method to enhance the use of limited resources, and the effectiveness of the IAF is supported by this theory.

METHODOLOGY

The study is an exploratory qualitative case study to explore how RBIA methodology is used at a large retail business in Cape Town, South Africa. The study falls within the pragmatism research paradigm as it seeks to obtain data from employees concerning business practices that are relevant and currently taking place. This paradigm is most suitable for the study as the research problem was investigated from a practical and real-life case context at the IAF of a retail organisation.

To achieve the study's research objective, literature on RBIA methodology was considered as a theoretical lens through which qualitative data collected was

interpreted. Data collection included online semi-structured interviews with eight participants, including the in-house CAE, internal audit managers, and internal auditors of the organisation. All participants were from a large Cape Town retail business's IAF. Purposive sampling was used to select participants based on specific criteria to gather rich, relevant data. Participants had to be working as internal auditors in the in-house IAF of the selected case study company and should have participated in RBIA, even if it were to a limited extent. These methods were deemed appropriate to address the research objectives because they were based on the researcher's judgement of who could provide the best information to achieve the purpose and objective of the study.

ATLAS.ti software was used to code the data from the interviews. The software used supported the analysis to ensure a systematic and documented approach. The first author performed coding of the data, and the other authors reviewed the results. The data were coded inductively, and overarching themes were identified from the codes. They were then compared with the professional guidance on RBIA to address the research objective. The comparison between the literature and semi-structured interviews was used to identify similarities, inconsistencies, and key findings related to the implementation of RBIA.

The appropriate ethics clearance was obtained, and ethical best practices were followed, such as voluntary participant participation and obtaining informed consent from all participants.

FINDINGS AND DISCUSSION

Initial codes were identified, and the interview data were coded accordingly, as expanded upon below. The initial codes were then grouped to form subthemes and then main themes. Three main themes were identified: current RBIA methodology, planning for an audit activity, and performing a risk-based audit, which are expanded on below.

The current risk-based internal audit methodology

The interview findings demonstrate if the department fully uses the RBIA methodology and whether the audit department management and internal auditors are aware of its requirements. The risk-based approach in the retail industry was also recognised as a gap in the literature (Lebaron & Lister, 2015). During the interviews, the researcher asked participants about their organisation's current auditing methodology. Several participants appeared unsure if the department followed a risk-based approach. Participant 1 stated: "I think it will be a very basic understanding. I wouldn't be able to give detail of how it's done." Another participant (Participant 7), with extensive experience in the department, believes that the approach is not fully risk-based. The participant claimed: "Yes and no, meaning, based on past experience, we always used to follow a risk-based approach." According to Participant 3, the department only employs a portion of the risk-based audit methodology because internal compliance is presently its main concern:

OK, so our organisation, I would imagine, is that they are following a partial risk-based approach because the biggest drive is actually more of a compliance approach with that we have to comply with that attestation. That's the main purpose at the moment.

In contrast, some participants opined that the RBIA methodology is fully utilised in the department, stating:

Participant 6: "I believe it's embedded, that we live and breathe risk, so it's definitely fully risk-based".

Some participants seemed somewhat unsure of the current RBIA methodology employed in their organisation. During the interview process, when the question was posed on what current risk-based audit methodology is employed in their organisation, the following phrases appeared: "I think ", "partial risk-based approach", and "yes and no". These words and

phrases support the assertion that participants are unsure whether this methodology is being used. The uncertainty in the participants' responses may indicate that this organisation does not fully utilise or implement an RBIA methodology.

The research findings show similar outcomes to those found in the literature. According to Lebaron and Lister (2015), there is uncertainty about the concept of RBIA in the retail industry and that the area of RBIA is ambiguous in the retail industry, as prior studies mainly concentrated on sectors other than the retail industry, such as the banking industry (Koutoupis & Tsamis, 2009), shipping (Koutoupis *et al.*, 2020), and the public sector (Coetzee, 2016; Coetzee & Erasmus, 2017; Erasmus & Coetzee, 2018; Zatsarinnaya *et al.*, 2021).

Planning for an audit activity

During the analysis, it was noteworthy that the term "planning" emerged from most participants without being prompted. Participants frequently used the term "planning" when referring to risk-based internal audits. Interestingly, the planning phase of a risk-based audit activity forms a substantial portion of the methodology when describing the steps to follow an RBIA process derived from the CIIA (CIIA, 2014). It is part of the second step in the RBIA activity and is stated as "planning for audit activity" (CIIA, 2014:9).

When posing the question, "Explain the Risk-based Internal Audit (RBIA) process followed at your organisation in broad steps", participants believed that the planning phase of an RBIA entails different aspects. Participant 1 commented that risk needs to be considered during the planning stage of an individual risk-based audit. This view was followed by Participant 4, who mentioned that a risk-based audit commences with highlighting the risk first, which is the initial phase of a risk-based audit.

Participant 5 stated: So, we would go and see what those particular risks are. And then from there, we

would follow the next step of the planning for the particular space that we're going to audit.

Participant 6 referred to the annual audit plan when the question was posed. The participant stated that the annual planning of a risk-based audit involves continuous engagements with the business stakeholders to identify risks in the business.

Overall, the participants expressed confidence in implementing a risk-based audit methodology at the annual audit planning stage. Additionally, it is interesting to note that no direct questions on the annual audit planning phase were asked during the interview process. The question asked included: "Explain the Risk-based Internal Audit (RBIA) process followed at your organisation in broad steps". Although the planning step of a risk-based audit methodology was not directly questioned, participants were inevitably drawn to the planning phase. This indicates that the participants are confident that a risk-based approach is used when planning for audit activities. When participants expressed the planning phase of a risk-based audit methodology, they referred to the planning stage as "highlighting the risks", "everything starts with the risk", and "see what those particular risks are".

Participants believe that the planning stage involves identifying or highlighting risks.

Prior studies identified a similar element connected to the risk-based audit's planning stage. The CIIA indicates that the planning phase of an RBIA occurs once a year and comprises choosing areas that require objective assurance on management and reporting of important risks (CIIA, 2014).

Participants were reluctant to mention the risk-based audit methodology's initial stage. In the initial phase, as per the professional guidance of the CIIA, the first step of the RBIA approach is to evaluate risk maturity. Evaluating an organisation's risk maturity involves understanding how the board and management

identify, assess, manage, and monitor risks. When outlining the first step of the RBIA process, a significant portion of the existing literature mentions the evaluation of the risk maturity of an organisation. Because of this, it seems that participants do not truly comprehend the initial phase of a risk-based audit methodology. If the proper phases are not followed, effectively performing a risk-based audit could be difficult.

Performing a risk-based audit

Participants were asked to explain the RBIA process followed at their organisation. Participants were also asked to explain the steps taken when performing a risk-based audit. This question was also posed to test participants' comprehension of what a risk-based audit entails without leading them. The purpose of this interview question was to determine with certainty whether the participants' organisation uses an RBIA methodology.

Participants seemed to respond in various ways regarding the steps taken by their organisation's risk-based audit process.

Participant 1 stated: "So, basically, how to perform the audit once it has been identified, so, how we do it at just broadly so, I think all audits for me are the same whether it's risk-based or it's not risk-based, you follow the audit steps, which is the planning, the execution, right and the reporting and the follow-up process, those four things but with this risk-based approach, everything starts with the risk, and it ends with the risk. I'm making an example, like how we start our records with what is the risk that you are trying to mitigate. Does the control that is in place mitigate that risk? So, I would say when performing a risk-based audit, you check, you start with the risk. The audit starts with the risk. It ends with the risk".

Participant 2 indicated that the first step is to meet with the key stakeholders to determine the area's strategic objectives, identify the key risks and controls,

and finally, document the information. Then, the major risks that need to be mitigated are determined.

“So, the start is to meet with key stakeholders and get their input as to what the department or the business unit’s strategic objectives are. And then, from there, the approach is to identify key risks. And then from there, identifying the key controls that mitigate those risks and those involved in that process is process documentation, flow charts, documenting flow charts to understand your process and from there identifying the key controls that would mitigate those key risks. In a nutshell, that is what we do”.

Participant 3 responded: “I think the main approach would be to actually, first of all, go to the areas to identify, so the pre-set areas for attestation purposes where you will then actually go into those areas to define the areas within those subsets to say what’s the key risks within, for instance, merchandise creditors and then you will go to see what is the key controls for those key risks and you’ll spend the majority of your time on it, so, you basically, you are guided in the area”.

Participant 4 elaborated on utilising data analytics during the RBIA process. The participant emphasised that data analytics is the main component during the planning stage of a risk-based audit. The participant stated: “So, since going on this journey, we’ve actually crossed over very much to data analytics, which, then, with intelligent logic or fuzzy logic, I should rather call it fuzzy logic, which we’ve applied. What I mean with fuzzy logic is, is being able to re-evaluate that logic over a period of time to see if it actually does highlight the risks that we are concentrating on, the key risk indicators we have been able to utilise that data to actually highlight exceptions, which is more pertinent to the business in terms of the operational side than what it is by going into a store and sitting there for days on end”.

Participant 4 also noted: “We are able to highlight or pick up more risks that are involved or shown within the businesses, and we’ve been able to, therefore, counteract fraud within the stores, those kinds of

things as well. So, from their perspective, it’s been a better approach”.

Participant 5 stated: “OK, perfect. All right, OK, so I’m just going to take one of my most recent projects that I’ve done. So, what we do is we consult the risk portal for all the risks for relevant, either strategic or is it operational; in my space, it’s operational stores. So, we would approach, we would consult in that space to the portal to see what risks have been included in the portal for the company in that specific space and then further to that, we also go to the combined assurance model document that we use to see if there are any other particular risks there that I haven’t been captured on the portal. And then also we look at operational risks. So, we would go and see what those particular risks are”.

Participant 8 mentioned: “We look at, for instance, point of sale, we look at cash sale refunds, we look at voids, amount of voids, and cash sale refunds. So, when I go into stores, basically, I physically go and view those, let’s say, for instance, I’m auditing, for instance, cash sale refund. I will go into those stores to check if they are following that process, which means, like, if an example, I can tell you like. Let’s say you have a look at cash sale refunds. I look at making sure that the supporting documentation of why the cash sale refund was done. I will look at the proper signatures. I’ll look at things like they’re not sharing passwords or not sharing their username with each other”.

Different responses related to performing a risk-based audit were given. Participants 1 to 3 highlighted the stages of conducting a risk-based audit, while other participants emphasised data analytics (Participant 4) and identifying risks (Participants 5 and 8).

Table 1 summarises the RBIA steps described by Participants 1 to 3 compared to the RBIA steps provided by the CIIA (2014). Only Participants 1 to 3 focused on the stages of conducting a risk-based audit in their responses and were therefore included in the table. Participants 4 to 8 only emphasised identifying key risks as part of the RBIA process. With regards to

Participants 1 to 3, the findings of the interviews show that the participants have varying opinions about the steps taken to perform a risk-based audit.

Table 1: Performing a risk-based audit

Steps for a risk-based audit	Participant 1	Participant 2	Participant 3	Literature review (CIIA, 2014)
Step 1	Planning	Meet with stakeholders	Identify key risks	Evaluation of risk maturity
Step 2	Execution	Identification of the key risks/controls	Execution	Planning for audit production
Step 3	Reporting	Documentation of the information	Identify key controls for those key risks	Conduct individualised audits

Participants 1 and 3 stated that the second step of carrying out a risk-based audit entails the “execution” stage of the audit activity, indicating that opinions differ in all steps other than Step 2. Also, it’s interesting to note that when discussing the RBIA steps, Participant 1 omits the word “risk”. This indicates that some participants did not understand the risk-based audit approach. Identification of key risks and controls are mentioned by two participants in Table 1. Identifying key risks is essential to a risk-based audit, as indicated in the literature review covered in the “RBIA engagements and process” section. However, surely, this is one of the steps of a risk-based audit, according to responses from some participants. Participants are confident that one of the necessary steps is to identify risk. Even though they explained this stage in terms of various risk-based audit approach phases, it is also notable that it at least receives attention. According to Participant 1, identifying risks is a component of Step 2. However, according to Participant 3, it is a component of Step 3. On the contrary, other participants did not discuss the steps for a risk-based audit.

Regarding the literature review, the risk-based audit processes are projected differently. In addition, it was challenging to compare the findings of the participants to those of the literature review since the participants’ justifications for doing risk-based audits varied. As a

result, there was no direct comparison between the literature review (CIIA) and the participants on appropriately performing a risk-based audit. According to CIIA (2014), the steps include evaluation or risk maturity, planning for audit activity, and conducting individual audits (execution). Notably, the first stage of conducting an RBIA, namely “evaluating risk maturity,” was not mentioned by the participants. The aforementioned discrepancies can mean that a risk-based audit is either not followed at all or is only partially executed within the organisation.

However, it is noteworthy to highlight that identifying risk is a part of the first step (evaluation of risk maturity) per the professional literature. It is stated by the CIIA (2014:2) that Step 1 (evaluation of risk maturity) is described as “gaining an understanding of how the board and management identify, assess, manage, and monitor risks.” However, one should remember that the first phase of the risk-based audit activity is only to understand how the board and management identify, assess, manage, and monitor risks, not just to identify the risks. Additionally, it is interesting that Participants 2 and 4 indicated that interacting with business stakeholders is crucial to conducting a risk-based audit. This may suggest that some participants carry out Step 1 (risk maturity assessment) while interacting with stakeholders.

One can draw numerous conclusions on whether the organisation is utilising a risk-based approach by contrasting the semi-structured interviews, literature, and professional guidance. When comparing the semi-structured interviews and professional literature in relation to performing a risk-based audit, the results are contradictory. The different responses from the semi-structured interviews indicate that participants do not agree regarding the concept of performing a risk-based audit. Thus, whether the RBIA methodology has been fully applied in the organisation cannot be confidently confirmed.

FINDINGS, RECOMMENDATIONS AND CONCLUSION

One of the key components of the audit function is to monitor the management of risks within an organisation. The independent assurance provided by the IAF plays a role in improving risk management, governance, and control processes. Adopting an RBIA approach assists management in managing the organisation's current and emerging risks, improving the governance and control environment. In addition, the implementation of RBIA significantly influences the effectiveness of the IAF. Furthermore, the assurance, conclusions, and suggestions made by the IAF have a substantial impact on how the management of an organisation makes decisions, which, in turn, helps the firm grow and function effectively. Since RBIA is a growing mechanism that assists in mitigating inherent risks, it should be implemented.

In this study, the participants were confident that a risk-based audit methodology is used. However, participants only seemed confident about one step of the required RBIA process – Step 2 (“planning for audit plan production”). An accurate and complete implementation of an RBIA methodology also involves the first step: “evaluating risk maturity”. Participants rarely mentioned the evaluation of risk maturity. Thus, it is not certain whether participants truly comprehend the initial phase of implementing a risk-based audit methodology. This may indicate that internal auditors

do not consider the organisation's risk maturity level before determining their audit plan. This could limit the effectiveness of the IAF and limit the benefits of following an RBIA methodology. Examples of possible missed opportunities include the lack of identification of areas of improvement in the organisation's risk management approach and inefficiencies in the audit programme if there is a higher expectation of organisational risk maturity than what there is, in reality. It is recommended that effective and agile strategies for implementing a risk-based audit activity be considered and managed to assist with accurately enhancing risk management, governance, and control processes in the business.

The findings of this study further point to a need for training and education of internal auditors in audit methodologies. Specifically, training on implementing RBIA can contribute to increased efficiency of the IAF.

A limitation of the study is its focus on only the RBIA process as a driver of the effectiveness of the IAF. It is recognised that other factors could influence the effectiveness of the IAF. Thus, future studies can consider other effectiveness drivers, such as the competence of the internal auditors, professional relationships between the IAF and key stakeholders, compliance with internal audit standards, certification, and professional body membership of the internal auditors.

Stemming from the limitation related to the single case study, it is suggested that the findings in this research be further studied across several locations, IAFs, and industries. Another key group of participants across various locations and industries could have provided different responses, leading to further insights into the role of RBIA methodology. Also, internal audit stakeholders outside the IAF could be considered participants in future studies. Additional internal audit methodologies could be investigated to give a comparative overview of how internal audit methodologies compare to RBIA methodologies in terms of their impact on the IAF and the organisation.

The study determined to what extent an RBIA is implemented in a retail business. However, further research is required due to the uncertainty and ambiguity in participants' responses during data collection. Thus, further research could help retail businesses find the best strategy to implement and use an RBIA approach.

The study identified participants' perspectives, experiences, and opinions on the RBIA approach at a retail business in Cape Town through qualitative semi-structured interviews. Although participants appeared uncertain and inconsistent in providing some answers, participants expressed some negative aspects of RBIA, such as limitations, the inadequate use of RBIA, and the lack of implementation of RBIA. The progress of RBIA in this regard is not stagnant. According to the study's findings, the IAF and the organisation are making investments to accelerate the RBIA approach in their function and enhance the current risk management strategies, and they are progressing rapidly.

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A Case Study Analysis into the Relationship Between Executive Remuneration and Company Performance in the South African Technology Sector

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Purpose: Executive remuneration has been a largely debated topic, particularly during times of economic uncertainty such as the global financial crisis and COVID-19. Currently, in South Africa, the economic conditions are challenging, which can cause debate over whether executives deserve the high compensation they receive while companies' performances are declining. This creates pressure for companies to justify the high compensation for their executive directors. One of the justifications provided for high executive remuneration is that it results in superior company performance. The purpose of this study is to determine whether executive remuneration is associated with a company's performance and whether this relationship is positive. This study will focus specifically on the technology sector which is one of the fastest-growing sectors in South Africa.

Methodology: The methodology used in this study was a correlation analysis. The relationship was assessed by evaluating whether the payment of a higher total guaranteed pay to a CEO is associated with enhanced company performance measured using Return on assets (ROA) as a performance measure.

Findings: The results showed a weak positive relationship between the CEO's total guaranteed pay and the company's performance. These findings agree with tournament theory and equity theory, which suggest that higher remuneration encourages individual performance, resulting in better company performance.

Contribution: This study adds to the academic literature in understanding executive remuneration trends within South Africa and can assist remuneration committees in determining the remuneration package of their executive directors.

Keywords: *Executive remuneration; company performance; technology sector; CEO; guaranteed pay; return on assets*

INTRODUCTION

The topic of executive remuneration is a controversial area that affects multiple stakeholders (Elsayed and Elbardan, 2018; Ismail, Yabai and Hahn, 2014; Scholtz and Smit, 2012). Executive remuneration faces more scrutiny from the general public during times of financial crisis as well as when companies face ethical scandals (Coles, Lemmon and Meschke, 2012; Wijeweera, Rampling and Eddie, 2021). The reason for this is that it is seen as the job of the executive directors to create value for its shareholders, for which they are compensated. Therefore, shareholders and other stakeholders do not see the executive directors as

having earned their high remunerations when the company's performance is not favourable (Scholtz and Smit, 2012; Wijeweera et al., 2021). In South Africa, the debate around executive remuneration is particularly contentious due to the tough economic climate. High unemployment rates, high levels of poverty and extreme inequality all contribute to the increased focus on the remuneration of executives and the justification of their pay. In order to address this, there has been an increased emphasis on companies disclosing their remuneration packages for their executives to the public. This transparency motivates companies to justify their executive remuneration and specifically

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state how it aligns with company performance (Scholtz and Smit, 2012).

In general, the relationship between executive remuneration and a company's performance is inconclusive as the results of studies have varied between weak, strong or no correlation depending on the country or sector (Agrawal and Samwick, 1999; Conyon and Peck, 1998; Conyon and Sadler, 2001; Elsila, Kallunki, Nilsson and Sahlstrom, 2013; Wijeweera et al., 2021). That being said, many prior studies have found a positive correlation between different types of executive remuneration and a company's performance (refer to Appendix 1), indicating that company performance is associated with executive remuneration (Ismail et al., 2014; Wijeweera et al., 2021; Wyk and Wesson, 2021). This research paper aims to add to the literature by evaluating whether there is an association between executive remuneration and company performance within the Technology sector in South Africa. The technology sector has been found to be a sector of growing importance due to the global 4th Industrial Revolution (International Trade Administration, 2021). The South African government has shown its interest in focusing on this sector by establishing skills development programs to train the younger generation in Robotics, Artificial Intelligence, Coding, Cloud computing and Networking (International Trade Administration, 2021). There is also an opportunity for South Africa to receive foreign investment as the technology market is seen as a potentially strong market despite the economic difficulties South Africa faces (International Trade Administration, 2021). Understanding the relationship between executive remuneration and company performance in the sector would therefore be of value to boards and remuneration committees in setting executive remuneration in potentially further strengthening company performance and, in turn, the sector.

LITERATURE REVIEW

In this literature review, the background around executive remuneration topic will be explored which will highlight the importance of the area. The theoretical frameworks that are relevant to executive remuneration and to this study will also be discussed. Thereafter, executive remuneration and performance measures shall be explained, as well as other factors that can influence performance. Furthermore, prior research on the topic of executive remuneration shall be discussed, concluding on the identified gap in the literature this study wishes to fill.

Background on executive remuneration

Executive remuneration has been a topic of extensive debate over a number of years especially during times of economic uncertainty. Examples of these difficult economic times are the corporate scandals of the 2000s, the global financial crisis in 2008 and the global COVID-19 pandemic, beginning in 2019, which was followed by a global recession (Deloitte, 2021b; PWC, 2021b). Oftentimes, debates surround whether executives deserve their high pay, which is relevant in South Africa as unemployment and inequality continue to rise. The rise in unemployment and inequality was worsened by the COVID-19 pandemic, therefore creating a wider gap between the average worker's remuneration and an executive director's remuneration (PWC, 2021a). In 2023, this pay gap ratio ranged between 150 to 950 times between the CEO pay and the average employee's pay for some of the country's largest listed companies (BusinessTech, 2023). There is also increasing discussion in South Africa around the living wage versus the minimum wage as a way of addressing the issue of poverty within the country (PWC, 2021a). As a result of this discussion, more people look at the considerable amounts of remuneration paid to executives versus the remuneration other employees in the company receive which results in criticism regarding the disparity of the two remunerations. The impact of corporate failures and poor company performance are more critical

within South Africa when viewed in the context of poor economic growth and high unemployment (Naik, Padia and Callaghan, 2020).

Over the years, there have been corporate governance principles established to motivate companies to align their executive compensation with company performance. One example of this is the requirements for companies to disclose their executive remuneration (Scholtz and Smit, 2012). In 1991, the Cadbury Committee was established and in 1995 the Greenbury report was introduced to give guidance on corporate governance principles for countries within the United Kingdom (Naik et al., 2020; Scholtz and Smit, 2012). Both these reports emphasised greater transparency by companies of their executive remuneration, as well as stronger alignment of executive remuneration to the long-term interests of shareholders. The Sarbanes-Oxley Act of 2002 was introduced in the United States to serve this purpose as well (Naik et al., 2020). In South Africa, the King Code guides and recommends companies to implement good corporate governance (Scholtz and Smit, 2012). One of the biggest shifts between the King II and King III report was the increased requirements for disclosure of remuneration as a way of increasing accountability. King IV continued this trend by requiring even more transparency on executive remuneration and aligns with the Companies Act 71 of 2008 (Erasmus, 2017; Wyk and Wesson, 2021). This topic is also important as its results can assist remuneration committees in determining remuneration packages for their executive directors (Elsayed and Elbardan, 2018). These remuneration packages should act as compensation for the company's prior period's performance, as well as incentivisation for improvement in the company's future performance (Elsayed and Elbardan, 2018).

The quest to answer the questions surrounding the fairness of executive compensation has fuelled the literature on executive remuneration, which often focuses on determining how strongly correlated executive remuneration is to a company's performance. The aim of a majority of these studies

was to determine whether company performance "influences" executive remuneration (Elsayed and Elbardan, 2018; Wijeweera et al., 2021). The studies vary in the type of executive remuneration and type of performance measures used to perform the research. A summary of the various studies and the measures used has been included in Appendix A. Overall, the results from this literature have been inconclusive as studies have varied in finding a strong correlation, a weak correlation, or no correlation (Agrawal and Samwick, 1999; Conyon and Peck, 1998; Conyon and Sadler, 2001; Elsilä, Kallunki, Nilsson and Sahlström, 2013; Wijeweera et al., 2021).

Theoretical frameworks

Agency theory

Agency theory is one of the most commonly used theories within academic literature discussing executive remuneration (Bussin, 2015; Bussin and Blair, 2015; Bussin and Modau, 2015; Elsayed and Elbardan, 2018; Scholtz and Smit, 2012). Agency theory states that within the company, the executive directors act as agents for the shareholders, however, there will be a conflict of interests between the two. This is due to the executive wanting to run the company in a way that benefits themselves but may not necessarily benefit the shareholder (Maloa, 2014). Jensen and Meckling (1976) performed a study that found that an executive's remuneration can be used to better align the executive's interests with the interests of the shareholders and reduce agency costs. This suggests a correlation between executive remuneration and the company's performance, which is substantiated by most prior research (Bussin, 2015; Bussin and Blair, 2015; Bussin and Modau, 2015; Elsayed and Elbardan, 2018; Scholtz and Smit, 2012). The study done by Jensen and Meckling (1976) predicts that short-term and long-term incentives could be specifically used as an instrument to solve the agency problem.

Tournament theory

In the article of Lazear and Rosen (1981), tournament theory likens an executive getting promoted in the company to winning a tournament and getting the ability to participate in the next tournament level. Tournament theory states that higher executive remuneration can result in incentivising other employees within the company who are at a lower position than the executive to progress (Elsayed and Elbardan, 2018). The incentivisation results in these employee's individual performance improving in order to get promoted in the company, which improves overall company performance. Elsayed and Elbardan (2018) found that executive remuneration has a greater impact on company performance compared to the impact company performance has on executive remuneration. This finding aligns with tournament theory. Therefore, based on tournament theory, it is expected that there will be a positive relationship between executive remuneration and company performance.

Equity theory

Equity theory suggests that "an individual's motivation is affected by how he or she perceives the ratio of inputs (i.e., work performance) to outcomes (i.e., rewards) in relation to people who perform the same job" (Maloa, 2014). Under equity theory, the result of the present study expects that an executive who is paid lower than an executive in the same position will put in less effort in their work which should correlate with a lower company performance. Therefore, equity theory also indicates that a positive correlation between executive remuneration and company performance is to be expected.

Structural theory

Structural theory suggests a direct relationship between a company's size and executive remuneration (Gomez-Mejia et al., 2014; Maloa, 2014). According to Gomez-Mejia et al. (2014), companies determine

remuneration for their executives "as a function of the number of levels below [the executive] and a fixed percentage difference between their pay and that of their subordinates" (Maloa, 2014). As a result, the analysis of the present study considered whether company size should be taken into account when determining the correlation between CEO total guaranteed pay and company performance.

Types of performance measures

Company performance is often measured through market-based and accounting-based measures (Bussin, 2015). A research paper performed by Murphy (1985) found that accounting-based performance measures (such as return on assets) are more suitable than market-based performance measures (such as share price). Yet, there is a risk as accounting-based measures can be manipulated in the executive director's favour and are not forward looking. The advantage of accounting-based measures is that they are not affected by the market which allows them to better reflect management's work (Bussin, 2015).

Gross performance measures are measures that indicate growth of a company (Naik et al., 2020). Therefore, change in revenue or change in total assets are examples of gross performance measures. Net performance measures are measures that better reflect shareholder's interests (Naik et al., 2020). Tobin's Q and return measures, such as return on assets, are considered to be net performance measures as they give an indication of how much benefit the shareholders are generating from their investment (Naik et al., 2020). The research performed by Naik et al. (2020) found that executive remuneration had a negative correlation with gross performance measures, yet a positive correlation with net performance measures. Return on assets, specifically, has been shown to have a significantly positive correlation with executive remuneration in other studies (Conyon and Sadler, 2001; Elsayed and Elbardan, 2018). This finding was agreed upon by Ismail et al. (2014), who concluded that CEO remuneration

has a stronger correlation with return on equity and return on assets than profit margins.

The present study will specifically use return on assets as a figure to measure company performance due to return on assets being an indication of the company's efficiency and how well management has used the company's assets to generate a return for shareholders (Ismail et al., 2014). Using return on assets gives an indication of whether the CEO's total guaranteed pay is specifically associated with better returns for shareholders, which would become an important consideration in deciding remuneration policies (de Wet, 2012; Naik et al., 2020; Scholtz and Smit, 2012). Many prior studies have used return on assets as a performance measure due to it being significantly relevant within the executive remuneration literature and it being a widely accepted metric for capturing aspects of efficiency and profitability of company performance (Coles et al., 2012; Elsayed and Elbardan, 2018; Sapp, 2008). As with many other ratios, return on assets is useful in determining comparability, as the different sizes of the companies are considered and effectively controlled for in the testing. As the present study will be looking at the technology sector, it was considered that companies within the sector may have considerable off-balance sheet assets. However, return on assets was still determined to be a useful measure for the present study as it is comparing companies within the same industry. Therefore, it is expected that these companies would have similar characteristics. It was also determined from the sample that these companies still do have significant total assets figures, therefore making return on assets an appropriate measure to use.

Types of executive remuneration

Executive remuneration can be broken down into fixed remuneration and variable remuneration. Fixed remuneration consists of total guaranteed pay and variable remuneration consists of short-term and long-term incentives. Total guaranteed pay is the part of an executive's total remuneration that is agreed upon by

the company and executive and is paid regardless of how the company performs (PWC, 2021a). Total guaranteed pay includes the base salary and other benefits a company may give to their executive directors, such as pension benefits, medical benefits, travel allowances, etc. Short-term incentives include remuneration that is based on the performance of the company and the individual over a short term (such as 12 months) that is usually in the form of cash (for example, a bonus if certain short-term targets are met) (PWC, 2021a). Long-term incentives include remuneration that is based on the company's performance over a longer period (typically more than 12 months) that can be in the form of cash or equity such as share options (PWC, 2021a).

In the present study, long-term and short-term incentives have been left out of executive remuneration, because not many companies in the sample state the amount of their incentives in advance. The given amounts in the company's financial statements are the actual incentives paid. This indicates the influence of performance on remuneration instead of the influence of remuneration on performance (Bussin and Blair, 2015). Due to the use of only total guaranteed pay in this study to represent executive remuneration, a weak correlation is expected. The reason for this expectation is total guaranteed pay is not meant to incentivise the executive to perform better as is the case of variable remuneration, but a positive correlation may still be expected due to the suggestions of tournament and equity theory. However, the present study still considers total guaranteed pay as an important variable to use, because the overall literature on executive remuneration has inconclusive results on the correlation between executive remuneration and company performance (Agrawal and Samwick, 1999; Conyon and Peck, 1998; Conyon and Sadler, 2001; Elsil, Kallunki, Nilsson and Sahlstrom, 2013; Wijeweera et al., 2021). Results vary based on countries and industries. As the present study will be looking at an industry that has not previously been researched within a South African context, it seeks to determine

whether the general correlation found between total guaranteed pay and company performance in prior academic literature will also be similar in the South African technology industry. The study therefore aims to make a contribution to the field and in an area which has limited research.

Prior research

Studies on trends within the United Kingdom and United States

Elsayed and Elbardan (2018) performed a study in the United Kingdom to determine the impact of executive remuneration on a company's performance. The reason for the study was to fill the gap in executive remuneration literature which usually focused on identifying whether a company's performance influenced their executive's remuneration. Scarce research has been done however regarding the influence of remuneration on company performance. In the study performed by Elsayed and Elbardan (2018) it was found that executive remuneration has a stronger correlation with firm performance when executive remuneration is the independent variable in comparison to when firm performance is the independent variable. Elsayed and Elbardan (2018) concluded that their findings suggested that executive remuneration has a stronger influence on firm performance than firm performance's impact on executive remuneration.

Conyon and Sadler (2001) found a weak link between executive remuneration and company performance in a study of United Kingdom companies. Agrawal and Samwick (1999) found a more positive correlation between executive remuneration and the company performance of United States companies. These findings contrasted with Jensen and Murphy (1990), who found no correlation between the executive's remuneration and performance within their United States study. Studies within the United States, however, do generally find a stronger correlation between remuneration and company performance

compared to studies within the United Kingdom (Sapp, 2008).

Studies on trends in other countries

Studies from other countries generally do not find a conclusive correlation and obtain mixed results (Ismail et al., 2014; Wijeweera et al., 2021; Kaplan, 1994; Kato, 1997; Matolcsy, 2000; Sapp, 2008). Ismail et al. (2014), found a positive correlation between CEO remuneration in Malaysian companies and their return on assets and return on equity. This indicates that companies use executive remuneration as incentivisation to perform better so that firm performance also improves. Izan, Sidhu, and Taylor (1998) found no correlation between CEO remuneration (including fixed and variable remuneration) and sales and rates of return in a study performed using a sample of Australian companies. Wijeweera et al. (2021) performed an Australian study that found that long-term incentives motivate executives and was also associated with better company performance. In the study it was also found that the correlation between long-term incentives and remuneration was stronger when specifically looking at CEO remuneration only. In contrast, the guaranteed portion of executive's remuneration had no association with the company's performance which they expected due to fixed remuneration generally being paid regardless of a company's performance.

Studies on trends within South Africa

Bussin and Blair (2015) evaluated whether a company's financial indicators are more closely correlated with CEO long-term incentives within South African industries. The study found that there was a positive relationship between a CEO's long-term incentives and a firm's performance if shareholder's return is used as a performance measure. In contrast, the use of other performance measures gave inconclusive results.

Bussin and Modau, (2015) performed a study that aimed to find whether there was a correlation between

CEO remuneration and company performance. The study found that there was a relationship between a CEO's short-term incentives and performance measures based on accounting-based performance measures. The results of the study indicate that after the 2008 global financial crisis, executives' total remuneration consisted of a greater proportion of fixed remuneration than variable remuneration. Bussin and Modau, (2015) concluded that this finding could indicate that executive directors attempt to have more financial security, by having their remuneration be less related to performance in times of economic difficulty.

Most South African studies find a positive correlation between executive remuneration and company performance (Wyk and Wesson, 2021). Naik et al. (2020) performed a study that tested what types of company performance measures would be more closely correlated with a higher percentage of variable remuneration for JSE-listed companies. In the study it was found that variable remuneration is strongly negatively related to gross performance measures. In contrast, variable remuneration was weakly positively related to performance measures that are more aligned with shareholder's interests. Basic salary, however, was positively correlated with gross performance measures (Naik et al., 2020; Wijeweera et al., 2021).

Bradley (2013) found that there was no relationship between CEO remuneration and the company's performance. In contrast, de Wet (2012) found a greater correlation between executive remuneration and the company's performance for companies within South Africa in comparison to those in the United States. Padia and Callaghan (2020) investigated the correlation between executive remuneration and different company performance measures of South African companies specifically after the introduction of King III. The study found that total executive remuneration has a stronger correlation to the company's revenue rather than a company's return on assets/Tobin's Q. This finding suggested the implementation of King III had not improved the

alignment of executive remuneration with performance measures that represent value added to the shareholder, such as return on assets and Tobin's Q.

Studies on findings within specific South African industries

Kirsten and du Toit (2018) performed a study based on the consumer goods and services sector of the JSE. The study found that executive remuneration in this industry had a strong positive correlation with the company's market performance instead of their accounting performance. This suggests a link between remuneration and the maximisation of the shareholder's wealth and aligned with the findings of Bussin and Blair (2015) and Murphy (1985).

Scholtz and Smit (2012) identified that the current South African literature around executive remuneration does seem to be focusing more on analysing the relationship between executive remuneration and company performance for companies in specific sectors. As a result, the authors identified the need to use a specific sector within the JSE that has a significant impact within South Africa. The reason for this is if the CEO's total guaranteed pay is seen to be significantly associated with company performance, then it may indicate that remuneration policies could be used as a consideration when determining how to improve South Africa's economy.

The present study will look at the technology sector within the JSE due to South Africa's Information Technology and Communications industry being one of the largest in Africa and is a major contributor to the country's GDP (International Trade Administration, 2021). As of 28 February 2021, the Technology sector made up 4.91% of total companies listed on the JSE and Alternative exchange. Despite the technology sector consisting of a small number of companies within the JSE (in comparison to other sectors), the market capitalisation of this sector made up 28.66% of the total market capitalisation of the JSE and Alternative

Exchange (as of 28 February 2021). This indicates that the technology sector is a significant sector (PWC, 2021a). Due to South Africa's struggling economy, it is important to consider sectors that can help boost the South African economy and how to improve the performances of companies within these sectors. If CEO total guaranteed pay is seen to have a strong association with the company's performance, it can assist companies within the technology industry with information that they can use in setting the CEO's compensation to incentivise better performance. This would also be in line with equity and tournament theory. Alternatively, if CEO total guaranteed pay is shown to have a very weak association, it can indicate to companies within the sector that they should put more focus on other factors that have a stronger correlation with performance.

Research on executive remuneration in the technology sector is also scarce with no studies focusing specifically on this area from a South African perspective. The present study, therefore, contributes towards research in this field.

METHODOLOGY

The study will aim to determine if there is a correlation between the guaranteed pay of CEOs (of JSE-listed companies in the Technology industry) and company performance. As this study seeks to focus on performance-pay sensitivity instead of pay-performance sensitivity, agency theory shall not be focused upon when analysing the results of this study. Instead, tournament theory and equity theory shall be used. Tournament theory explains how executive remuneration may indirectly impact company performance through the incentivisation of lower-level employees (Elsayed and Elbardan, 2018; Lazear and Rosen, 1981). Equity theory, in contrast, explains how executive remuneration may directly impact company performance through the incentivisation of the CEO (Maloa, 2014). Under both these theories, there is an expectation of a positive relationship between executive remuneration and company performance.

Total guaranteed pay, however, is paid to the CEO regardless of performance; therefore, it is not expected to be a strong determinant of a company's performance.

Data collection, Sample and Research design

The sample consisted of twenty-one companies within the JSE that fall within the technology sector obtained from Listcorp (Listcorp, 2022). Information for one company could not be found therefore the final sample consisted of twenty companies. Some of the companies within this sector have only recently listed, therefore their financial information is only publicly available from 2020/2021. In 2022, some of the companies from the sample of twenty, delisted or did not publish integrated reports. As a result, an analysis of the 2022 period for the same group of companies was not able to be performed. The study thus only considered an association between CEO total guaranteed pay and company performance in the 2021 financial period. While this study only focuses on the relationship between the CEO's remuneration and company performance, future studies intend to consider the relationship between other executive remuneration and company performance measures, over longer time spans as well as across other industries. The inclusion of other executive directors in the analysis is another area that is intended to be incorporated as part of future studies in the field.

The total guaranteed pay of each company was obtained from their 2021 annual reports, which were obtained from each company's respective website. Where the amount paid was in dollars or euros, it was translated to Rands using the annual average exchange rate for the specific company's financial year obtained from SARS legal counsel publications. The return on assets figure of each company was obtained from the Bloomberg terminal, which ensures consistency in the inputs and calculation of the return on assets figure across all companies (Bloomberg, 2022).

Structural theory suggests a direct relationship between a company's size and executive remuneration (Gomez-Mejia et al., 2014; Maloa, 2014). As a result, it is expected that larger companies pay their executives higher salaries. In order to control for company size and make the data points more comparable, this study determined it was necessary to do a separate analysis where total guaranteed pay was adjusted for indicators of company size. Revenue was chosen as the indicator of company size as it had a stronger correlation to CEO total guaranteed pay than total assets. The further analysis was done by taking the CEO total guaranteed pay and dividing that figure by the respective company's revenue in order to normalise the guaranteed pay figure and control for company size. The total revenue figure of each company was obtained from the company's Consolidated Financial Statements for the year ending 2021 (also obtained from the company's website) in order to make an adjustment to CEO's total guaranteed pay figures for company size.

The study used a correlation analysis in Excel at a 95% confidence level. Within this analysis, CEO total guaranteed pay was the independent variable and return on assets was the dependent variable.

The data was analysed in three separate ways. Firstly, the correlation coefficient and coefficient of determination was determined to analyse the relationship between a CEO's total guaranteed pay and a company's return on assets (refer to figures 1 and 2). The correlation coefficient indicates the strength and direction of a relationship. The coefficient of determination indicates how much of the variation in the dependent variable is associated with the variation in the independent variable. Secondly, the correlation coefficient and coefficient of determination was determined again to analyse the same relationship but removing any outliers identified in the data (refer to figures 1, 2 and 3). Lastly, a separate analysis was performed where total guaranteed pay was adjusted for indicators of company size before being analysed for a relationship (refer to figures 1, 4 and 5).

The three hypotheses used in the study can be summarised as follows:

Hypothesis 1:

There is a positive relationship between a CEO's total guaranteed pay and a company's return on assets.

Hypothesis 2:

There is a positive relationship between a CEO's total guaranteed pay and a company's return on assets after removing any outliers in the data.

Hypothesis 3:

There is a positive relationship between a CEO's total guaranteed pay and a company's return on assets after adjusting total guaranteed pay to control for company size.

Validity and reliability

To ensure validity of this study, the assumptions of a correlation were tested. Normality was tested and proved using Excel's Normal probability plot. Homoscedasticity was tested and proved by calculating the squared residuals of the data and determining from a scatter plot of predicted values against squared residuals whether the plot was random. Linearity did not need to be proved due to normality and homoscedasticity existing within the sample (Statistics Solutions, 2022). Most of the prior literature also used a correlation analysis to determine their findings, which indicates that this data analysis method is reliable and valid to use, as this study is testing similar types of data (Elsayed and Elbardan, 2018; Wijeweera et al., 2021).

RESULTS AND DISCUSSION

Table 1: Descriptive statistics of the sample

	<i>Total Guaranteed pay</i>	<i>Return on assets</i>
Average	R6 826 858	11.14%
Minimum	R735 000	-5.62%
Maximum	R24 496 971	101.29%

Table 2: The correlation coefficient and coefficient of determination of the various tests:

	<i>CEO TGP</i>	<i>Adjustment 1</i>	<i>Adjustment 2</i>
Correlation coefficient	0.06359	0.10884	0.13059
Coefficient of determination	0.00167	0.00965	0.01705

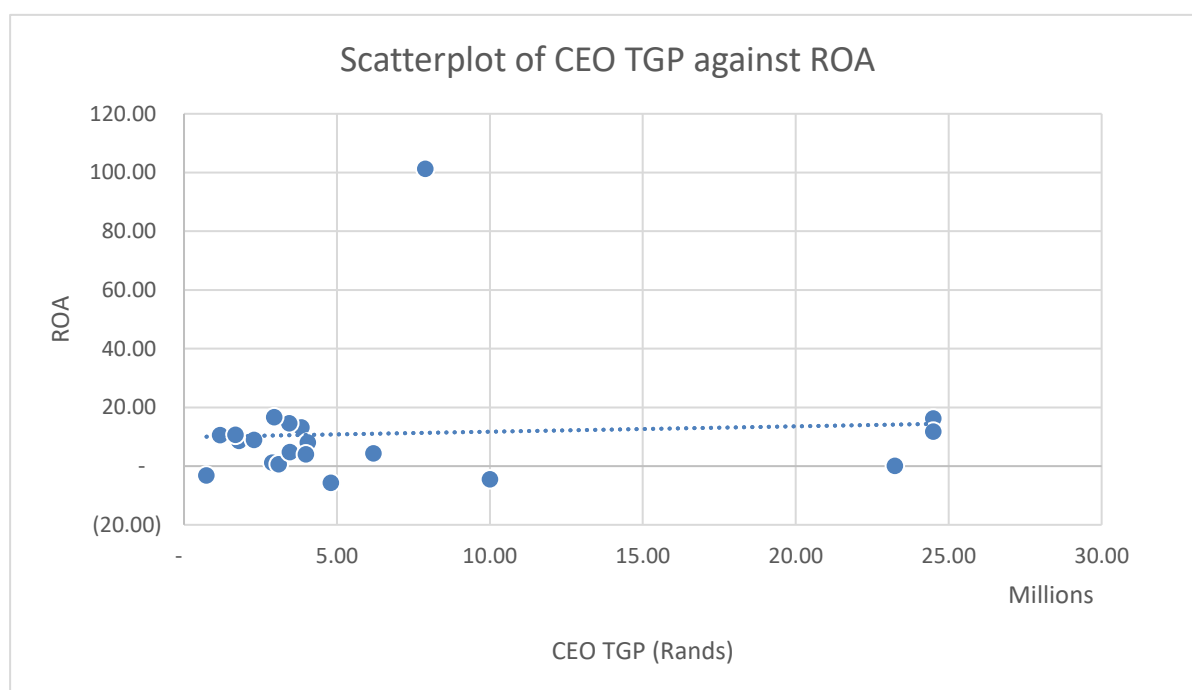
Key:

CEO TGP: CEO total guaranteed pay against return on assets

Adjustment 1: CEO total guaranteed pay against return on assets (removing outliers)

Adjustment 2: CEO total guaranteed pay (adjusted for company size using revenue) against return on assets

Figure 1: Scatterplot indicating the relationship between the CEO's total guaranteed pay and the company's return on assets figure



The correlation coefficient of 6.359% indicates that the CEO's total guaranteed pay has a weak positive relationship with a company's return on assets. The coefficient of determination indicates that 0.167% of the variance in the company's return on assets is associated with the variance in the CEO's total guaranteed pay. These findings agree with prior literature which determined that an executive's total

guaranteed pay has a weak relationship with a company's performance (Bussin and Blair, 2015). This is due to the payment of the fixed remuneration not being dependent on the company's performance. Therefore, it is unable to function as an incentive to executive directors (Bussin and Blair, 2015). These findings also indicate a consistency amongst all industries studied within South Africa, that total

guaranteed pay has a weak correlation with a company's performance (Naik et al., 2020).

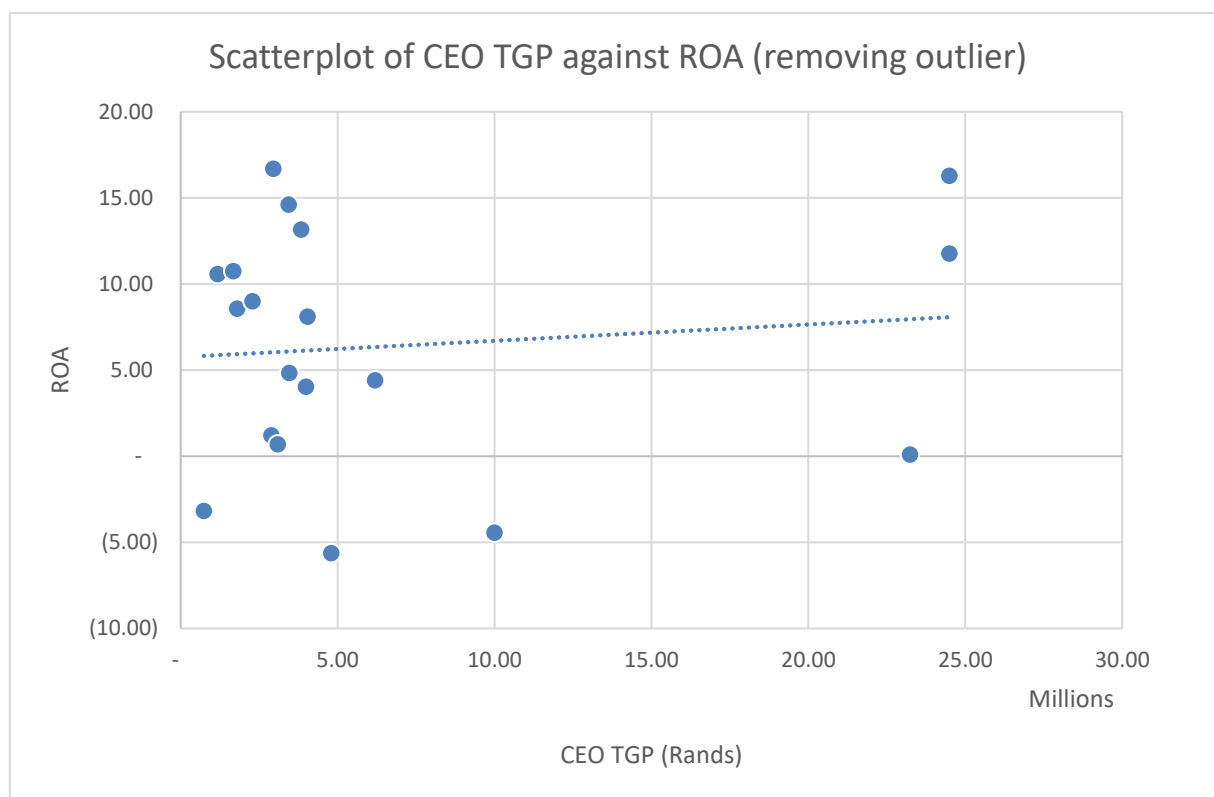
The positive correlation found within this study does however indicate that there is still some relationship with the company's performance (despite being very small) in comparison to other factors that impact company performance. This result can be explained using tournament theory, as the CEO's total guaranteed pay can act as a slight motivator for staff at levels below the CEO position. This can have a slight improvement on the company's return on assets, therefore resulting in a positive correlation between the two variables. This finding can also be explained using equity theory, as it can indicate that the total guaranteed pay of a CEO of another technology company can slightly influence how much effort a competitor CEO puts into the company they are running. This can therefore influence the company's performance. Yet, the weak relationship indicates that under both these theories, the significance of the positive relationship that a CEO's total guaranteed pay has on the company's performance is very low.

From Figure 1, a data point was identified as a possible outlier. The outlier was determined by using the interquartile range method on the return on assets

dataset (Anagnostou et al., 2021). The method requires that a lower fence (calculated as the difference between quartile 1 and 1.5 times the inter-quartile range) and upper fence (calculated as the sum of quartile 3 and 1.5 times the inter-quartile range) be determined and any data point above the upper fence or below the lower fence is determined as an outlier. The lower fence was calculated to be -16.2975% and the upper fence was 29.7225%. The data point that was out of this range had a return on assets figure of 101.29%.

Outliers can be indicative of an error within the sample or can be considered a natural outlier (Anagnostou et al., 2021). If an outlier is indicative of an error, it should be removed from/changed for the sample being tested as it can result in the findings being skewed. The outlier found in this study was not an error, as it was the actual return of assets figure obtained for the data point. Therefore, the results determined above are not incorrect (refer to Figure 1) as it is based on correct data points. However, considering that this study has a small sample size, it was decided that an additional analysis be performed without the outlier in order to see the possible impact on the findings (refer to Figure 2) (Anagnostou et al., 2021).

Figure 2: This scatterplot indicates the relationship between the CEO's total guaranteed pay and the company's return on assets figure once the outlier observation was removed



The removal of the outlier slightly improved the strength of correlation coefficient to 10.884%. The strength of the relationship, however, still remains weak. Removing the outlier, also increased the coefficient of determination to 0.965%, indicating that about 1% of the variance in the company's return on assets is associated with the variance in the CEO total guaranteed pay. This small amount is to be expected, because there are many factors that are associated with a company's performance that were not considered in this study (Ismail et al., 2014).

Table 3: The descriptive statistics of the CEO's total guaranteed pay and the company's return on assets figures are shown below

Descriptive statistics	CEO total guaranteed pay	CEO total guaranteed pay (after removing outlier)	ROA (before removing outlier)	ROA (after removing outlier)
Mean	6,826,857.57	6,771,007.96	11.14	6.39
Standard deviation	7,755,859.28	7,964,254.94	22.26	6.91
Minimum	735,000	735,000	-5.62	-5.62
Maximum	24,496,971	24,496,971	101.29	16.7

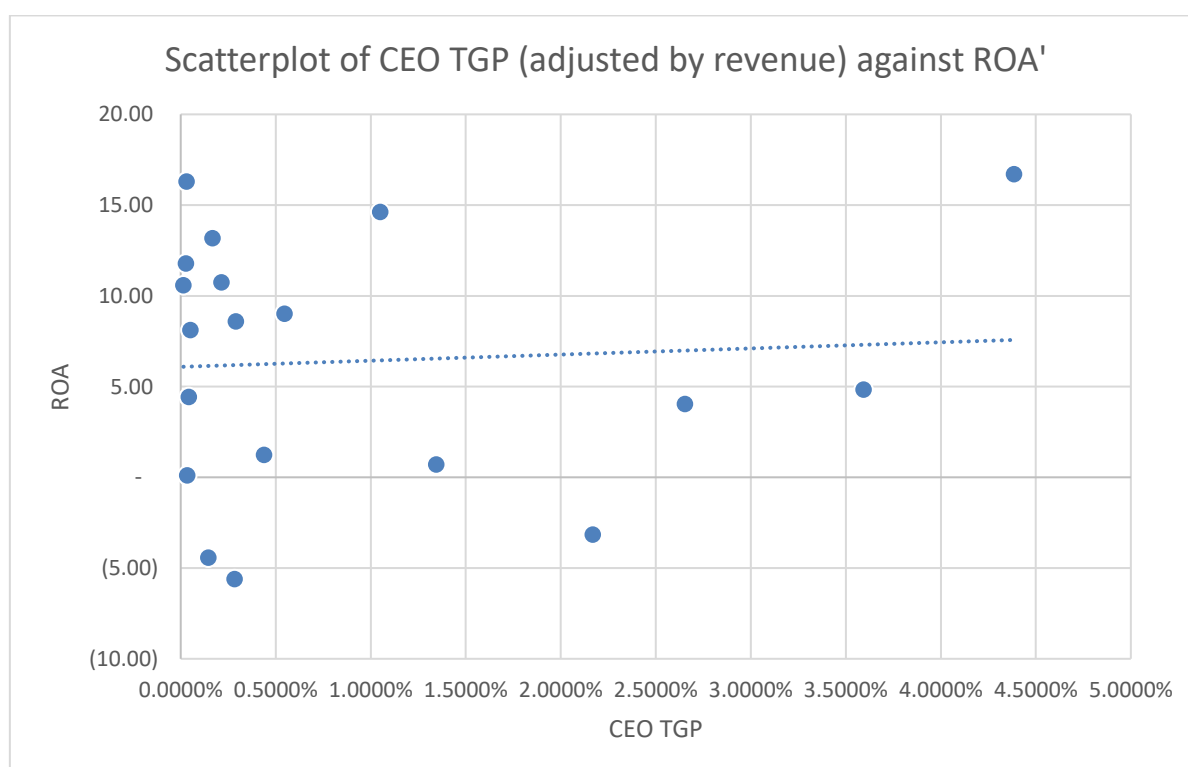
The large range between the minimum and maximum CEO total guaranteed pay amounts, caused this study to consider the implications of structural theory. The size of the company can influence CEO total guaranteed pay as some of the technology companies in the sample have only recently listed while others have been listed for many years. The relationship between CEO total guaranteed pay and indicators of company size were tested. The correlation coefficient

between CEO total guaranteed pay and total assets was 13.1562% with a 1.7309% coefficient of determination. The correlation coefficient between CEO total guaranteed pay and revenue was 53.518% with a coefficient of determination of 28.6418%. These results indicate that company size has a strong relationship with CEO total guaranteed pay as there is an indication that companies with a larger size are paying their CEO a higher total guaranteed pay (Gomez-Mejia et al., 2014; Maloa, 2014).

In order to control for company size, this study determined it was necessary to perform a separate analysis where total guaranteed pay is adjusted for indicators of company size. Revenue was chosen as the indicator of company size as it had a stronger correlation to CEO total guaranteed pay than total assets. The further analysis was done by taking the CEO

total guaranteed pay and dividing the amount by the respective company's revenue in order to normalise the guaranteed pay figure. The updated guaranteed pay figure is what is used in the new analysis. Prior research indicates that adjustments for company size, when it has a strong association with a variable, can be performed in order to make the data within the sample more comparable (Gonthier-Besacier and Schatt, 2007; Ishimaru et al., 2021; Muto et al., 2019). Return on assets is already a percentage, therefore, making it a comparable figure as the company size is inherently accounted for. Therefore, it was determined that there was no adjustment required to return on assets for company size. Therefore, the correlation coefficient and coefficient of determination was determined to analyse the relationship between a CEO's total guaranteed pay (adjusted for company size) and a company's return on assets (refer to Figure 3).

Figure 3: This scatterplot indicates the relationship between the CEO's total guaranteed pay adjusted for company size using revenue and the company's return on assets figure



The adjustment for company size resulted in an increase in the correlation coefficient to 13.059% and the coefficient of determination to 1.705%. This

indicates that the removal of the impact of company size from the CEO total guaranteed pay resulted in a stronger correlation overall. However, the relationship

in general is still weak, indicating the significance of the relationship still remains small.

CONCLUSION

This study aimed to determine whether a CEO's total guaranteed pay was associated with a company's return on assets performance within the technology sector. Prior research has shown that the relationship between remuneration and company performance is generally inconclusive as results can differ between countries and industries (Agrawal and Samwick, 1999; Bussin and Blair, 2015; Conyon and Sadler, 2001; Tshipa et al., 2018). Most South African studies, however, do find a positive relationship between executive remuneration and a company's performance (Wyk and Wesson, 2021).

This study found that overall, there is a weak positive relationship between a CEO's total guaranteed pay and the company's return on assets for JSE-listed technology companies. This finding aligns with prior research, which determined that as total guaranteed pay is not based on the performance of a company, it does not motivate the CEO as much as variable remuneration (Benito and Conyon, 1999; Bussin and Blair, 2015; Main et al., 1996). The positive relationship, however, can be explained by tournament theory and equity theory. Tournament theory implies that employees are incentivised by the CEO's remuneration as they see it as a possibility for them to earn that amount if they reach that level (Lazear and Rosen, 1981). Employees, therefore, increase the quality of their work, which improves company performance, resulting in a positive correlation. Equity theory suggests, CEOs are incentivised based on the remuneration of the CEOs of the company's competitors, also resulting in a positive correlation (Maloa, 2014). Therefore, these findings agree with this study's hypotheses and may provide motivation for boards to ensure that their pay policies are appropriately structured to support superior company performance.

Corporate governance principles have placed greater emphasis on remuneration disclosure and for companies to base their pay on the company's performance (Scholtz and Smit, 2012). As a result, remuneration committees should consider when setting executive remuneration that the significance of the relationship between total guaranteed pay and a company's performance is very small. Previous studies have found that when a larger proportion of a CEO's remuneration is fixed, there is a weaker link with company performance in comparison to when the larger proportion is variable (Bussin and Modau, 2015; Girma et al., 2007). This is due to variable remuneration being used as an incentivisation for better individual performance. Fixed remuneration, in contrast, does not require the CEO to increase their effort in order to earn the amount. The results of previous studies agree with the results of this study, finding a weak relationship between total guaranteed pay and a company's return on assets (Benito and Conyon, 1999; Bussin and Blair, 2015; Main et al., 1996).

LIMITATIONS AND FUTURE RESEARCH OPPORTUNITIES

Elsayed and Elbardan (2018) indicated that "single equation models" could result in findings that are not reliable. However, as many of the companies within the sample have only recently listed, the companies do not all consistently provide other variables to use as performance determinants to make a consistent comparison. There are, however, multiple previous studies that did not include these other variables in performing their research indicating that the findings of this research can still be reliable (Ismail et al., 2014; Scholtz and Smit, 2012).

The sample size is too small to make a generalisation due to the JSE technology sector only consisting of twenty-one companies. Therefore, the conclusions of this study cannot be taken as a general conclusion for the population of all technology companies within South Africa. Yet, this study can still be valuable as a

pilot study to determine the executive remuneration trends within the South African technology sector.

In terms of opportunities for future studies, other measures for executive remuneration and company performance could be used to see if similar results are found. The study could also be done over multiple periods to assess trends in any possible relationships between executive remuneration and company performance over time. The inclusion of other sectors of the JSE, as well as other executive directors, in the analysis would also provide interesting insights into the field.

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APPENDICES

Appendix 1: Summary of results of prior research

<i>Year of study</i>	<i>Where</i>	<i>Researcher</i>	<i>Measure of company performance</i>	<i>Measure of executive remuneration</i>	<i>Finding of the relationship between executive remuneration and company performance</i>
1986	United States	Murphy	Rate of return of common stock	Total compensation	Positive
1990	United States	Jensen and Murphy	Rate of return of common stock	Total compensation	No correlation
1990	United States	Leonard	Return on equity (ROE)	Total compensation	Positive
1998	Australia	Izan, Sidhu and Taylor	Return on equity, return to shareholders, annual sales	Total compensation	No correlation
1999	United States	Agrawal and Samwick	Share price performance	Total compensation	Positive
2012	South Africa	Scholtz and Smit	Total assets, turnover and share price	Total cash remuneration (salary and annual bonus)	Positive
2012	South Africa	de Wet	Economic value added (EVA), market Value added (MVA), return on assets (ROA) and ROE	Total compensation	Positive
2013	South Africa	Bradley	ROA, ROE and earnings per share (EPS)	Total compensation	No correlation
2014	Malaysia	Ismail, Yabai and Hahn	ROA, ROE and profit margin	Total cash remuneration (salary and annual bonus)	Positive
2015	South Africa	Bussin and Blair	EBITDA, fixed assets, profit after tax, total shareholder return, capital employed	Long term incentives	Positive (in certain circumstances)
2015	South Africa	Bussin and Modau	Market capitalisation, EPS, ROE, EVA, MVA	Total cash remuneration (salary and annual bonus)	Positive
2018	United Kingdom	Elsayed and Elbardan	ROA, Tobin's Q	Total compensation	Positive
2018	South Africa	Kirsten and du Toit	ROE, ROA, turnover, EPS, PPS	Total compensation	Positive
2020	South Africa	Naik, Padia and Callaghan	Turnover, Total assets, ROA, Tobin's Q	Variable remuneration	Negative (in certain circumstances) Positive (in certain circumstances)
2020	South Africa	Padia and Callaghan	Tobin's Q, ROA	Total compensation	Positive
2021	Australia	Wijeweera, Rampling and Eddie	Market capitalisation, EBIT, Net profit after tax	Total compensation (each element tested separately)	Positive
2021	South Africa	Wyk and Wesson	Company KPIs	Long term incentives	Positive

Informal Sector Taxation: A qualitative analysis of the experience of the urban informal operators in Rustenburg, North West Province

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Purpose: The David Tax Committee identified a lack of research into taxation of the informal sector in South Africa. While the sector could contribute meaningfully to tax revenue, it remains difficult to tax. This study aims to investigate the reasons for low tax compliance in the informal sector and to assess how this can be improved.

Design/methodology/approach: The study conducted semi-structured interviews with informal sector operators in Rustenburg in the North West Province to delve into tax compliance phenomena. Thematic content analysis was employed to identify common themes from the respondents. These were used to assess the extent to which the reasons for non-compliance identified in the literature were reflected, as well as whether any additional explanations could be identified.

Findings: The study found that lack of tax education was the main reason for non-compliance amongst the participants. Most participants were unaware of the basic framework of the tax system or what their own obligations within that system might be. In addition to the explanatory variables identified in the literature, it was also evident that foreign informal business operators face legal obstacles to the formalisation of their business activities in South Africa, without which they cannot consider issues of tax compliance.

Originality/contribution: The study contributes to an under-researched area of tax compliance and recommends two key issues that the tax authority should begin by addressing if the informal sector is to increase its contribution to the fiscus.

Keywords: Tax compliance, informal sector, tax education, tax literacy

INTRODUCTION

Background

The primary objective of taxation is to raise funds for government spending in an administratively feasible, equitable and efficient manner (Keating, 1984). South Africa is a developing country continuously facing fiscal pressures (Pakkies et al., 2022). The Davis Tax Committee (2016) has emphasised broadening the tax base by reducing revenue leakages and increasing tax compliance. One way of broadening the tax base is by bringing informal sector operators within the tax net to ensure equity, inclusivity and fairness of the tax system.

Given its size, the informal sector in South Africa could contribute significantly to revenue mobilisation through tax (Ligthelm, 2006). This sector contributes about 20% of the country's total employment and 5.1% of the country's gross

domestic product (StatsSA, 2019; Rogan & Skinner, 2017). Despite its enormous potential, this sector has remained difficult to tax (Bongwa, 2009). The assumption is that most participants in the informal sector do not register for tax or follow any regulations (Rodríguez-Oreggia, 2007). They make sales and pay for inputs in cash and do not have bank accounts, thus making it difficult to trace their income – a process through which they avoid paying income tax (Woodruff, 2013).

Objectives of the study

To broaden the tax base, it is necessary to understand how informal sector operators view the tax system (Saad, 2014). Understanding what motivates or discourages individuals within this sector from paying taxes, and their attitudes toward taxation in general, may provide perspective into their tax compliance behaviour. This study aims to explore the challenges for informal sector operators regarding their

¹ This paper is partially based on the dissertation/thesis of Amogelang Mokgatlhe (first author), presented for the Master of Commerce degree at the University of Cape Town with supervisor (Shaun Parsons) and co-authors (Shaun Parsons, Taryn Adams).

tax compliance and assess how tax compliance in this sector can be improved.

Research questions

The research aims to answer the following questions to achieve the objectives of the study:

- a. What are the factors that create challenges for informal operators in terms of their tax compliance?
- b. How can the South African Revenue Service (SARS) improve its tax compliance in the informal sector?

Research rationale

The feasibility of informal sector taxation remains an under-explored area of research in South Africa (Davis Tax Committee, 2016). Although the tax compliance of informal sector operators may not result in immediate revenue benefits, SARS needs to develop a culture of tax compliance that may translate into revenue gains in the long term (Mpofu, 2020). The study will unveil some of the challenges associated with tax compliance in the informal sector, which may assist SARS in improving the sector's tax compliance and contribution.

LITERATURE REVIEW

Theoretical frameworks

Various theories or models reflect why people comply with tax regulations (Bello & Danjuma, 2014). Five behavioural theories or models of tax compliance were identified as relevant to the study.

The economic deterrence model assumes that each taxpayer is a rational economic agent, and that tax compliance is higher where the costs of tax evasion (determined by tax rates, the likelihood of detection and punitive measures for tax evasion) exceed the benefits thereof (Walsh, 2012). The comparative treatment model suggests that taxpayers are more likely to demonstrate higher tax compliance when they believe the entire tax system is fair and unbiased (Ali et al., 2013). The fiscal exchange model is based on tax negotiations and assumes that tax compliance is higher when taxpayers are pleased with the public goods and services provided by the government (Devos, 2014). The social-psychology model assumes that personal norms (such

as beliefs, tax ethics, mindset, and morale) and social norms (such as the extent to which taxpayers are influenced by whether or how others pay their taxes) influence tax compliance (Bello & Danjuma, 2014; Ali, et al., 2013). The political legitimacy model assumes that tax compliance is higher when taxpayers have confidence and trust in the government and its efficiency and effectiveness in fiscal decision-making and spending (Kirchler et al., 2008).

Challenges in taxing the informal sector

Tax authorities and participants in the informal sector face specific challenges when seeking to be tax-compliant (Utaumire, Mashiri & Mazhindu, 2013). These challenges may have led to the perceived view that most of these participants avoid paying income tax. The abovementioned behavioural theories of tax compliance can be linked to the main challenges that may result in non-compliance identified in the literature. These are discussed below.

Lack of information

The lack of information available to the tax authorities results in reduced levels of tax compliance. Tax authorities find it challenging to obtain and maintain critical data about participants in the informal sector. These include a lack of information regarding the informal sector operators' registries and bank accounts and a lack of physical business addresses that can easily be located and monitored (Dube, 2014). Identifying and collecting taxes from operators in the informal sector may lead to significant costs incurred by tax authorities. In addition, informal sector operators generally conduct their business activities on a cash basis (Awasthi & Engelschalk, 2018). This leaves no trail of the income generated or the expenditure incurred by these operators, allowing for the manipulation of records used for tax compliance.

The lack of records also creates a challenge for operators seeking to be tax compliant. Informal sector operators often fail to maintain proper records of the complex cash business transactions that occur during each year of assessment (Mpofu & Msipa, 2020). This negatively impacts their ability to determine an accurate taxable income base that may be used to determine their income tax liability.

The lack of key information may present a challenge for tax authorities in enforcing tax compliance. This may result in

informal sector operators acting as rational economic agents (as reflected in economic deterrence theory) by failing to be tax compliant. There would be no cost for non-compliance to these operators, as it is unlikely that they will be identified or penalised, while significant benefits for non-compliance are experienced in the cost, time and effort of compliance saved.

Significant cost burden

The cost of administering tax compliance in the informal sector may be significant for the tax authorities. Some critics suggest that the costs associated with implementing a formal tax system in the informal sector may exceed the potential revenue generated (Joshi et al., 2013).

Furthermore, it is unusual for developing countries' tax authorities to dedicate significant resources to identify a large group of potential taxpayers in the informal sector using a blanket enforcement method, as the cost may exceed any potential benefit (Keen, 2012). This is especially true where developing countries' tax authorities lack the necessary human and physical resources to do so (Mashiri, 2020). This often leads to ineffective ad hoc methods of tax collection in the informal sector, such as confrontational and coercive in-person raids, being implemented by tax authorities (Dube, 2014).

The significant costs incurred by informal sector operators in complying with tax rules may also create a challenge for operators seeking to be tax compliant. These include high taxpayer registration fees, penalties or fines for operating in the informal sector, and costs incurred to prevent or avoid threats of onerous inspections and bribe demands (Coolidge, 2010; Jaramillo, 2009).

In addition, the ineffective ad hoc tax collection methods in the informal sector may be perceived as unfair towards vulnerable informal sector operators. This may be viewed as harassment and abuse by government officials. This may lead to informal sector operators demonstrating a lower level of tax compliance, as they believe the tax system is not fair and unbiased, consistent with comparative treatment theory.

Lack of tax education

Despite the general awareness of taxes, evidence suggests that informal sector operators are unaware of taxes specifically applicable to them (Dube & Casale, 2019). These operators often lack understanding of tax rules, processes and the benefits of paying taxes (Dube & Casale, 2016). The literature acknowledges this challenge and suggests that it is necessary to improve the general public's understanding of the country's taxation policy and the accompanying compliance incentives to achieve success in taxing the informal sector (Dube, 2014). It recognises that imparting basic tax knowledge could assist tax authorities in developing strategies to encourage tax compliance in the informal sector and create positive incentives for both tax administrators and operators (Joshi et al., 2013). The lack of tax education in the informal sector potentially impacts the personal and social norms of the operators. This may lead to lower tax compliance, as recognised in social-psychology compliance theory.

Dissatisfaction with service delivery

Governments in developing countries are often perceived as corrupt and self-seeking, which impacts the level of tax morality amongst the general public (Mpopfu, 2020). High levels of corruption experienced in the government may discourage informal sector operators from complying with tax legislation. This may further be impacted by their dissatisfaction with how taxes are used in the country, the perception of being excluded from participating in the decision-making considerations of the fiscal revenue, or a general belief that the government is inattentive to their needs. The lack of satisfactory service delivery from the government makes it difficult for these operators to survive and sustain themselves, negatively impacting their willingness to pay taxes (Fox & Pimhidzai, 2013).

Lack of confidence and trust in a government and its efficiency and effectiveness in fiscal decision-making and spending may lead to lower tax compliance, as reflected in political legitimacy theory. Similarly, according to fiscal exchange theory, dissatisfaction with the public goods and services provided by the government may lead to a lower level of tax compliance.

RESEARCH METHODOLOGY

The study adopted the interpretivism research paradigm to gain an in-depth understanding of people's views and actions. It employed semi-structured interviews to delve into tax compliance phenomena. A qualitative approach through interviews allowed for in-depth investigation and questioning, resulting in a fuller picture of the phenomenon being studied, as suggested by Alsaawi (2014). Authorisation to conduct the research was obtained from the University of Cape Town's Commerce Ethics Committee on 27 July 2022. Study participants provided informed consent before the interview.

Interviews were conducted with ten informal sector operators in Rustenburg in the North West Province. The location was selected based on convenience, following the principal researcher's acquaintance with the area. Creswell (1994) suggests that small sample sizes may be sufficient for qualitative research to support the depth of the required analysis. Furthermore, Vasileiou et al. (2018) posit that purposive small samples in qualitative research may be chosen for their ability to provide rich-texture information pertinent to the phenomena being studied. Guidelines on selecting a sample size in qualitative research were followed to reach a point of saturation at which the data collected was regarded as adequate (Boddy, 2016). The sufficiency of the sample size was indicated by the evidence of saturation in the repetitive themes and patterns that arose, and the sample size was thus considered sufficient.

The interview questions were piloted with an informal sector operator to allow for any necessary adjustments to the interview guide as preparation for the fieldwork. The pilot interview, conducted in English on 25 August 2022, proved helpful in indicating that minor revisions to the interview guide were required to simplify specific questions to suit the different levels of understanding of the study participants. The responses from the pilot interview were included in the sample (of ten) as they provided useful information for the study.

The remaining nine interviews were conducted from 26 to 29 August 2022. The age of the interviewees ranged from 20 to 59. Nine of the ten interviewees obtained matric or A-level education, with one having obtained a tertiary qualification. The interviewees were involved in various business activities, the most dominant being cash loan provisions, catering and property rentals. The most

frequently reported business age was between one and nine years.

Interviews were recorded and then transcribed by a transcription service. Thematic content analysis was then used to analyse the transcriptions using Nvivo software. Such analysis involved examining data to identify common themes that answered the research questions (Vaismoradi et al., 2013). A coding technique was used in the initial step of the analysis to find relevant concepts that best represented each interviewee's response to the interview questions. Reasonable attempts were made to use the study participants' actual words and to group themes in a way that reflected the texts holistically. These codes were divided into themes in the second step of the analysis to find patterns in the data and make data interpretation easier. The discussion of the findings is based on these themes.

FINDINGS

The key themes identified which may result in non-compliance can be linked to the main challenges identified in the literature. These findings are discussed below.

Lack of information

The geographic profile of the informal sector operators creates a challenge for tax authorities to enforce and collect taxes in the sector. The informal sector operators interviewed conduct their business activities from various locations. While most of the business locations of interviewees are permanent or semi-permanent (70%), some business locations are home-based, which may be difficult for the revenue authority to identify. One interviewee who conducts her business activities from home indicated that she continues operating without paying taxes as the local municipality has not approached her on this issue. The fact that business locations may be difficult to identify could be a reason for operators' non-registration. The findings support the proposition that the tax authority may lack easily accessible information regarding the business locations of informal sector operators.

The findings indicated that most informal sector operators use both cash and cards as business payment methods (60%), while 40% rely solely on cash transactions. Those who use card payments do not have separate business bank accounts and mainly use their personal bank accounts for

business transactions. The reasons for using different payment methods varied. The main reasons given were customer preferences and the provision of alternative options for different situations and customers. The main reasons some operators used only cash included expensive banking fees, convenience for operators and customers, and the viability of the business. Although the dominant use of cash payments may allow operators to conceal income to reduce their income tax liabilities and allow for manipulation of records used for tax compliance, the findings indicate that operators do not necessarily use cash payments with the deliberate intention of evading taxation.

The lack of adequate record keeping also creates a challenge for informal sector operators to be tax compliant. The findings indicated 80% of the interviewees used a manual recordkeeping system (i.e., a book and pen), while 10% used an electronic recordkeeping system (i.e., a laptop), and 10% did not specify the use of any system. Due to the operators' level of accounting knowledge, the recordkeeping systems maintained were very basic and only indicated what was received and spent by the business. None of the interviewees could afford the bookkeeping services of an accountant. Although the dominant use of basic recordkeeping systems presents operators with a means of hiding important information for determining their income tax liabilities, the findings indicate that these systems are employed by operators based on their basic level of accounting knowledge and the need for affordability, and not necessarily to facilitate the evasion of taxes. Some responses from operators regarding the lack of information are included below.

"The everyday records? Usually, I write them down in my counter book, knowing who owes me, who does not owe me. That is how I operate." (Respondent 1)

"Cash is King. That's money. I believe in something that I see." (Respondent 2)

"Normally I use cash." (Respondent 8)

"Oh, I use cash transactions yeah. Because the viability of the business needs cash." (Respondent 10)

The sample did not entirely fit the assumptions of the economic deterrence model, as operators do not intentionally choose to trade in the informal sector to evade taxes. Their choice and state of tax compliance do not appear to be determined mainly by economic factors such as tax rates or the possibility of detection and punitive

measures for non-compliance. The majority supported the use of penalties for non-compliance imposed by tax authorities and regarded these as an effective strategy to encourage tax compliance. Others expressed the importance of emphasising the benefits of paying taxes to encourage tax compliance. None of the interviewees referred to the cost of compliance with regard to the possibility of detection by the tax authorities and the subsequent imposition of penalties, which may indicate that they operate without any concern of detection by tax authorities.

Significant cost burden

The significant costs incurred by informal sector operators in complying with tax rules may create a challenge for operators seeking to be tax compliant. Most businesses in the sample are small in size and do not have a solid customer base and stable income across all seasons. Despite the expressed willingness to contribute to taxes, most operators remain unregistered as taxpayers due to the nature of their business activities. The findings indicate that the income of interviewees is generally unstable and low (relative to a perceived subsistence level), and 'profit' is not always guaranteed after covering the significant costs incurred to maintain the business. Most of their business income is used to sustain their business activities, while operators use the remaining profit for survival. Operators struggle to adapt to paying taxes regularly when their profits are not always guaranteed. While there was no indication of the actual income generated by the interviewees and its sufficiency to cover taxes, most interviewees admitted to not paying taxes as they believed their income was too low to afford to pay taxes. The interviewees could not indicate whether they perceived the present tax rates as high or reasonable. However, the common emphasis on the low income generated from businesses in the informal sector may indicate that the operators perceive tax thresholds to be high. Some responses from operators regarding their significant cost burden are included below.

"If you are paying taxes and you are making small money then how much is your profit?" (Respondent 3)

"Tax is a bit tricky on us for small businesses because what we earn is very little. Because as for us, it is really tough to get that money from the government and stuff. They do not even help us." (Respondent 1)

“Firstly, I have to open a business account and it needs R500 and I have to pay that R500 almost every year, whether my business started working or not, as long as I’m registered at tax, I have to pay. So imagine I’m not working, my business hasn’t generated money. Where will I get that R500?” (Respondent 10)

“I think policemen, nurses, teachers, those people who work for the government, who are earning too much money should pay taxes.” (Respondent 7)

Due to the non-compliance of the participants, the study was unable to present any findings linked to the potentially high administration costs for tax authorities as an obstacle to the implementation of a formal tax system or effective enforcement in the informal sector.

Lack of tax education

The lack of tax education may present a challenge for informal sector operators seeking to be tax compliant. The findings indicate that most informal sector operators understand the role and importance of taxes to some extent. Interviewees identified tax as a source of revenue for the government. The most commonly identified use of tax was community upliftment through the provision of social grants and public services. Most interviewees were aware of the progressive nature of taxation. Certain perceptions about taxation in general and the tax system are included below.

“I think they use it for providing medication, building schools and roads, and infrastructure, which I think is a good thing for our economy.” (Respondent 2)

“I think taxes are that little money that the government is taking from those businesses that are registered legally so that they can help the disadvantaged people of South Africa even some of the disadvantaged foreigners, those ones in squatter camps.” (Respondent 4)

“Okay, the small knowledge that I have I think a business is enquired to have a certain amount a year so that the person can start paying tax. So, I think my business is very small for that.” (Respondent 6)

One of the leading causes of non-compliance by informal sector operators appears to be tax illiteracy. All interviewees indicated that the tax authority failed to provide tax education in the informal sector in the Rustenburg area. This deficiency can be linked to the operators’ lack of awareness of the importance and potential benefits of paying taxes, as

well as of the procedures necessary for tax compliance. Most interviewees indicated that they had no knowledge of specific taxes applicable to small businesses operating in the informal sector. Nonetheless, they displayed positive tax morale, indicating they would be willing to receive basic tax education and comply with tax regulations if they had the relevant tax knowledge.

It appears that non-compliance (or indifference towards tax compliance) in the informal sector in the Rustenburg area is a norm. Tax compliance is not a visible priority in the informal sector of the selected research area, as none of the interviewees indicated any attempt to be tax compliant. Half of the interviewees indicated that only the wealthy should pay taxes. Some indicated their understanding regarding non-compliance issues, while others did not understand such matters. The limited level of tax knowledge is evident from the responses included below.

“With my small business, I do not see where they should tax because there is nothing to tax there.” (Respondent 1)

“Everyone who is working with a normal earning I think deserves to pay tax.” (Respondent 8)

“Those who have big companies, those big companies like Anglo Mine should pay taxes.” (Respondent 5)

Most interviewees indicated their ability to gain access to tax information. They identified various sources, including the internet, television, print media, SARS branches, SARS text messages, employment channels (such as labour relations offices and labour unions), and word-of-mouth. Those who used the abovementioned resources mentioned the importance of asking people (such as SARS staff or labour union representatives) questions to better understand tax-related matters. All interviewees believed that it would be beneficial for informal sector operators and the tax authorities if SARS representatives could provide tax education in an environment where parties could dialogue. Some responses from operators regarding access to tax information are included below.

“I just hear them from other people because I have never made a follow up with the taxes and stuff because I have never been employed full time.” (Respondent 1)

“Regarding taxes, your information is everywhere. You can see it on TV. Some billboards are there, some booklets are there, some pamphlets are there.” (Respondent 2)

Despite the ability to gain access to tax information, many of the interviewees continue to view taxation as difficult to understand. Specific reference was made to their inability to understand the tax processes and advantages applicable to small businesses operating in the informal sector. Some responses from operators are included below.

“It’s difficult because most of our people, they are not well educated, like someone who’s owning a salon, doesn’t know. What he knows is just to cut hair.” (Respondent 2)

“It is difficult, especially to some of us, people that are not most educated that do not know the advantages.” (Respondent 5)

Most interviewees indicated limited to no exposure to tax-related matters. This deficiency was primarily due to not being registered taxpayers.

“I am not registered so I have never been to SARS.” (Respondent 2)

Some interviewees indicated limited interactions with the tax authority or the tax system. The interactions arose due to the need to register for formal employment (separate to their business activities in the informal sector) or registration of their business in the informal sector. The feedback on the interviewees’ limited experience with the tax system varied but was mostly positive. It was acknowledged that SARS employees were friendly and welcoming and displayed a client-focused attitude. They were very willing to answer operators’ questions and provided them with guidelines for compliance, which were easy to understand and follow. In contrast, some interviewees expressed dissatisfaction with the procedures, the lack of clear communication regarding required documentation before visiting a SARS branch, and the fact that registration requirements were altered upon visiting a SARS branch. Some responses from operators regarding their experience with the tax system are included below.

“The process is superb; I know the experience is good because obviously they want to get money from you so they will give an exceptional reception.” (Respondent 8)

“The process was easy, very quick and friendly.” (Respondent 5)

“I registered through an agent who made everything smooth sailing. I think there was an amount I paid since it is years

ago, I paid a small amount for it. Though I think they said if you go individually like for yourself it is free to register, you can go.” (Respondent 6)

“First time it was difficult because I had to go to a branch, so I had to make appointment first and after I come back and wait for them to give me the date to come back, go there. It was almost the whole day because I didn’t have all papers with me. First time when I booked, they didn’t ask me what to bring, so I went there and went to the bank and went there and after they sent everything via email and not all of us have access to emails or smart phones, so I had after they send you the email, you have to go back to the POSTNET and download this thing because on your phone, none of us even have phones, they don’t have that app. It’s only at POSTNET and you have to pay again.” (Respondent 10)

Tax is by nature complex, and without education and access to tax information, it seems likely that informal sector operators will find it challenging to comprehend taxation. Most interviewees were found to be unaware of their responsibility to voluntarily register for taxation as well as of the current applicable tax rates. Lack of tax education was therefore found to be a significant contributing factor to non-compliance.

Dissatisfaction with service delivery

A lack of confidence and trust in government and its efficiency and effectiveness in fiscal decision-making may negatively contribute towards compliance in the informal sector. Interviewees expressed concerns about taxes being misused and wasted due to government corruption. Most interviewees (60%) mentioned corruption in government as discouraging tax compliance. Some acknowledged the positive work undertaken through the government’s use of taxes, but highlighted corruption as a hinderance to government performance. Dissatisfaction was mainly expressed concerning local government services. Some interviewees expressed their lack of trust in the government due to poor service delivery in the informal sector in the Rustenburg area. Interviewees generally perceived the local government in the Rustenburg area as inefficient and ineffective in its decision-making and execution. They demonstrated a lack of confidence in the government’s fiscal decision-making and spending efficiency. This perception was ascribed to the local government’s failure to roll out public goods and services satisfactorily. The government was

not considered entirely politically legitimate due to the misuse and wastage of tax revenue. One of the main reasons cited for government inefficiency was corruption in government. The findings suggest that it is essential for the government to execute decisions and spending efficiently to encourage tax compliance.

Furthermore, the dissatisfaction with the public goods and services the government provides may also deter informal sector operators from tax compliance. Most interviewees believed that their businesses should benefit directly from their tax contributions. The most anticipated benefit was the government's support of businesses operating in the informal sector. The interviewees indicated a willingness to pay taxes to the government in return for receiving goods and services that would be beneficial to the operators themselves or their businesses. The interviews indicate that informal sector operators in the Rustenburg area believe they have not previously received any assistance or support from the government, which may discourage them from participating in the tax system.

The lack of government support is regarded as a significant limitation to the growth of businesses in the informal sector. It is perceived that the government does not regard some of the businesses in this sector as "professional businesses". Informal sector operators rely solely on themselves for financial support and the survival of their businesses. They do not have access to formal funding or credit, or to business training and support, which places their businesses at risk of failing. However, most of the informal sector operators in this research study operated their businesses for more than five years, which may indicate the sustainability of the businesses irrespective of access to such opportunities.

The dissatisfaction and frustration expressed concerning the quality and quantity of public goods and services provided by the local government in the informal sector in the Rustenburg area may be due to the location of the interviewees. During interviews, the principal researcher witnessed the results of poor service delivery in dirty and potentially unsafe surroundings, high levels of seemingly unemployed young people, evidence of poor healthcare, poorly maintained roads, and insufficient housing and water supply. These circumstances may contribute to mistrust and a lack of confidence in the government's ability to roll out satisfactory public goods and services.

Despite the abovementioned dissatisfaction expressed by interviewees, acknowledgement was still given to the importance of taxes for enabling the provision of public goods and services that positively impact the greater society. Taxes were still considered essential, notwithstanding the government's shortcomings in upholding the social contract. The dissatisfaction expressed, thus, seems to reflect the belief that the government can do better with tax revenue rather than being a direct deterrence to tax compliance.

Interviewees displayed varied levels of tax morale, most of which were positive. The operators acknowledged a moral duty to pay taxes and anticipated receiving direct business benefits. They also acknowledged the potential business opportunities for small businesses and the harmful effects of non-compliance. In contrast, the lack of government support for businesses operating in the informal sector and the operators' perception of a lack of benefits received in exchange for taxes paid reduced tax morale. Some responses from operators are included below.

"Personally, there is nothing that I have prevented me from paying tax. If my business was legal and it was registered, I would not mind paying a certain percentage because to a greater extent it is helping disadvantaged people." (Respondent 4)

"My benefit, maybe if I pay, maybe they will be able to build us a space that they can fit those small, small businesses than to go around in the street." (Respondent 5)

"It is my business and even the government did not help with anything." (Respondent 8)

"I don't see any benefits of paying it, because someone else is eating that money." (Respondent 2)

"I do not see any benefits as of now, because it is still a small business." (Respondent 3)

"There are some other loopholes and failures. There's a lot of corruption, there has been corruption too much, they are corrupt. So, it may be hindering their way of doing their work." (Respondent 9)

"Taxes are supposed to help people. But for me, I do not think the government will help me if I pay tax. I will just pay

tax on my salary; I pay tax because I have to because I am working.” (Respondent 8)

Other

The other commonly identified challenge for operators seeking to be tax-compliant is the dominance of foreign-owned businesses in the informal sector in the Rustenburg area. During the interviews, it became evident that most of the study sample comprised foreign informal operators. This was consistent with the literature review, which identified South Africa as a magnet for businesses on the African continent and acknowledged the migration to South Africa as the main reason for the country’s large informal sector. The participation of foreigners appears to have significantly diluted the market share of locally owned businesses in the informal sector and can also be linked to the low income generated by these operators. One of the interviewees emphasised this finding, mentioning how competing foreign business owners charge lower sales prices than local business owners and send the money back home, compared to the local business owners who spend their earnings in South Africa.

“I have a car wash and a restaurant. I can charge you R50 for a car wash. The other foreign guy will charge R35. Then I suffer because I’m on a loss, but they expect me to pay as well. That guy won’t pay. He just takes the money and sends it home like it is now, I won’t send it home. I’m going to spend it here in South Africa.” (Respondent 2)

The dominance of foreign-owned businesses in the informal sector may be due to this sector being more accessible than the formal sector. Formalising a business is lengthy and complex and requires specific documentation to be obtained. The responses indicate that some immigrants operate in the informal sector because they lack the necessary legal documentation for citizenship or for operating a business (i.e., a business permit). This results in the exclusion of foreign informal sector operators from the tax system.

CONCLUSION

The study concludes that interviewees generally displayed a willingness to comply with and pay taxes, but this did not manifest in any significant evidence of attempts to be tax compliant. The lack of formal recordkeeping and the

prevalence of cash transactions may frustrate any enforcement efforts of the tax authority, and interviewees demonstrated little concern for the implications of non-compliance. As interviewees had made little, if any, attempt to ensure tax compliance, no evidence was identified of the prohibitive cost of compliance.

The general lack of education and tax knowledge amongst informal sector operators presents a significant challenge to tax compliance. This lack of tax education and experience with the tax system was evident in the operators’ responses throughout the interviews. Interviewees had little or no previous interaction with the tax authorities or the tax system. Although most interviewees indicated an ability to gain access to tax information, they generally find such information difficult to understand. They also displayed a lack of awareness of their responsibility to ensure their own tax compliance, with the majority of the informal sector operators failing to register as taxpayers. This was due to the misconception that tax compliance is unnecessary unless enforced by the tax authority. Operators appeared to believe that the tax authorities are legally obligated to identify taxpayers and enforce compliance, rather than the obligation resting with the individual. Most interviewees also displayed little awareness of the available tax incentives and benefits for small businesses operating in the informal sector. Generally, they indicated a lack of understanding of their tax rights and obligations. Interviewees acknowledged their lack of tax education and indicated the positive contribution that tax education would make to compliance.

While interviewees expressed appreciation for public goods and services provided by the government, they were dissatisfied with the quantity and quality thereof. Perceptions of corrupt practices, resource mismanagement, and poor governance created a general lack of trust and public faith. Despite the awareness of the role and importance of taxation, the interviewees indicated that corruption in government defeats the purpose of paying taxes and enriches corrupt government officials instead of contributing to public utilities.

The study also identified the particular challenges experienced by foreign-owned enterprises in the informal sector. Foreign operators found it easier to enter the informal sector due to the challenges presented by the documentary requirements necessary to participate in the formal sector. Such requirements also preclude them from

participating in the tax system. Despite this, most of the foreign informal sector operators in the sample displayed a positive tax morale, indicated an understanding of the importance of paying taxes and expressed a strong willingness to contribute to such revenue if given the opportunity. This finding highlights a need to carefully consider migration issues and processes in the informal sector in light of tax compliance objectives.

RECOMMENDATIONS

The study recommends that techniques be implemented to strengthen tax compliance in the informal sector to account for the various factors influencing tax compliance behaviour. This includes the need for tax authorities to provide tax education to informal sector operators and the need to improve the migration processes and policies for foreign immigrants operating in the informal sector.

Tax authorities should focus on tax education initiatives in the informal sector. This may include education about the technical aspects of taxation, tax concessions for small businesses, tax processes from registration to the return of submissions, and the benefits of paying taxes. The tax authority's provision of tax information and innovative ways of providing easier access to tax information and education could address the current tax knowledge gaps observed amongst informal business operators. It may be helpful to consider the nature of the informal sector and the demographic profile of informal sector business operators when implementing tax education outreach initiatives. Improving the tax literacy of potential taxpayers may lead to improved tax compliance in the informal sector.

Furthermore, it is recommended that the complexities in migration policies and processes which present challenges for foreign immigrants operating in the informal sector be considered. Some challenges include the lack of the necessary documentation for residence or economic activity in the country, as well as problems experienced in obtaining business permits to operate in the formal sector. These challenges were observed to be interconnected with the challenges faced by foreign business operators in becoming tax compliant. Developing more inclusive migration policies and accessible processes may improve tax compliance in the informal sector.

RESEARCH LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

The study only focused on business operations in the informal sector in the Rustenburg area of the North West Province of South Africa. Future research could be expanded to other cities and provinces to obtain further evidence and enable comparison with other parts of the country. The study also only included informal sector operators from a limited number of businesses or industries in the selected research area. Further research could include a wider variety of informal businesses.

The study followed a qualitative method of enquiry, using a small sample size to perform an in-depth investigation of complex human behavioural issues towards taxation. The collected data relies on self-reporting, which may lead to inaccurate or incomplete findings. Therefore, a quantitative method of enquiry could be used to expand the scope of research in this area to include a larger sample size and quantify observed behaviours.

The study only focused on the tax perceptions of operators and the challenges faced by tax authorities and operators in the informal sector of South Africa. Further research could be expanded to the perceptions and challenges faced by tax authorities and informal sector operators in other African countries, which could be used to identify successful strategies to improve tax compliance to be implemented in South Africa. This could ultimately inform a tax policy framework for informal sector taxation in South Africa.

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The Quantification of the Effects of Fiscal Drag on Selected Elements of the South African Income Tax Act over the 5-year period: 2021 to 2025

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Purpose: This study examines whether fiscal drag is present and quantifiable within selected elements of the South African Income Tax Act over the five years from 2021 to 2025. If present, the effect will be quantified using developed formulas to provide a cumulative effect of fiscal drag for a set of representative taxpayers.

Design/methodology/approach: This study is to be done using a quantitative approach making use of positivist methodologies to prove the hypothesis that fiscal drag is present and quantifiable within the selected elements of the South African Income Tax Act over the five years from 2021 to 2025. This quantitative approach incorporates the calculation of fiscal drag using inflation rates and growth rates of selected exemptions, exclusions and tax credits.

Findings: This study proves the hypothesis that fiscal drag is present and quantifiable within the selected elements of the South African Income Tax Act over the five years from 2021 to 2025, showing that with the annual increases of taxation-related limits and bands the mechanism of fiscal drag results in reduced purchasing power for taxpayers as taxation payable increases at a relatively higher rate than inflationary increases in earnings.

Originality/contribution: This study makes use of existing data to calculate a novel numerical quantification of a known effect. This quantification is useful for both taxpayers as well as tax policymakers to examine the effect of fiscal drag on purchasing power.

Keywords: *Fiscal drag; Income tax; Inflation; Purchasing power; SARS*

INTRODUCTION

Fiscal drag refers to the process whereby the reduction of the real value of nominally fixed taxation limits, deductions, or tax credits occurs. This is due to the increase of such limits deductions or tax credits at a rate below inflation. This can lead to higher real tax burdens for taxpayers (Immervoll, 2006). In South Africa, this issue was highlighted in 2024 when Finance Minister Enoch Godongwana surprised many in the 2024 Budget by not providing inflationary relief in the income tax bands for individual taxpayers for the 2025 year of assessment (Comins, 2024). This is the first time in five years that no relief has been given explicitly (with no changes to the previous year's values) (Maleke, 2024). However, by increasing taxation limits and thresholds at levels below the inflation rate the increase in tax burdens for South Africans has been ongoing for many years (Visser, 2024).

It warrants further investigation to attempt to quantify what the cumulative year-on-year effect might be for both a set of representative taxpayers as well as the extreme case of a taxpayer on the upper limit of all examined taxation limits and who is utilizing all available deductions and tax credits that have been examined.

LITERATURE REVIEW

While both the concepts of taxation and inflation have existed for centuries, it presents a great challenge to identify a consensus when investigation linking the effects of the two came to the fore (Pitchford & Turnovsky, 1976). Perhaps the most prominent and well-publicized occurrence in recent history was in 1979, the year Margaret Thatcher was elected British prime minister. In 1979, the UK's inflation rate was at comparatively high levels and Thatcher's first chancellor of the exchequer, Sir Geoffrey Howe, managed to bring stability to the budget by reducing

any relief to fiscal drag (Botella, 1994). However, the concept has been investigated in South Africa dating as far back as 1968, when its effect was found to be linked to the tax “Bulge” in South Africa by F.S Simpson (Simpson, 1968). It is a key aspect to remember that, while looking at the effects of fiscal drag from the detrimental effect on the taxpayers, the effects of fiscal drag are the inverse for the collection of taxation revenue (Lee, 2011). Additionally, the inbuilt effect of fiscal drag can act as a stabilizer on an economy (Immervoll, 2006).

In recent times, the concept of fiscal drag and its relationship to income tax has been highlighted each year around the time of the budget speech and the announcement of new taxation bands or tables (the rates on which natural persons pay tax, depending on their level of income). Examples of this can be seen in 2024 when the lack of adjustment to the taxation tables was explicit (Fisher-French, 2024), and in prior years when the adjustment was simply at a level below inflation and, as such, more implicit. (Visser, 2023). This trend has been on display for an extended period, with Nyamongo and Shoeman investigating the progressivity of taxation in South Africa over the period 1989 to 2003 and showing that, over the period, progressivity was impacted by new taxpayers entering the “tax net”, partially as a result of increases of income without the corresponding increases in taxation related rates, deductions and tax credits (Nyamongo & Schoeman, 2007).

The funding needs of the South African Government are well publicized, with new initiatives such as the National Health Insurance (NHI) and an increase to the Basic Income Grant (BIG) expected to drastically increase funding needs over the coming years (Anders & Magubane, 2024). Some commentators have estimated that to fund the NHI alone, personal income taxes would need to increase up to 31% across the board and, while this is unlikely to take place at once, the effect of fiscal drag will help SARS to increase collections without the associated negative sentiments from the tax base (Libera, 2024).

Inflation is a key determinant of fiscal drag, if there is no inflation or inflation is similar to the related increases in taxation burdens, then the effects of fiscal drag might not be present. Inflation in South Africa has historically been very difficult to predict, with its volatility being one of the characteristics of South Africa’s persistent efforts to contain inflation (Mandeya & Ho, 2021). Furthermore, there exist numerous ways of measuring inflation, with some methods looking at all forms of price increases within an economy such as headline inflation (Arora et al., 2013) and others, such as core inflation, rather than using a selected basket of items to measure inflation (Brunner, 1973).

METHODOLOGY

To quantify the effects of fiscal drag on selected elements of the South African Income Tax Act over the five years, each specific exemption, exclusion, or tax credit needs to be examined to determine the individual effect of each over the examined period. This is to be done using a quantitative approach making use of positivist methodologies to prove the hypothesis that fiscal drag is present and quantifiable within the selected elements of the South African Income Tax Act over the 5 years from 2021 to 2025.

These changes are investigated through the examination of published versions of the Income Tax Act of 1962 and the comparison to the prevailing inflation rates for the relevant period. A numerical formula for each examined exemption, exclusion, or tax credit is then created and used to quantify the effect of fiscal drag relating specifically to that exemption, exclusion, or tax credit. That quantification takes into account the applicable tax rates, inclusion rates, ages, and income levels of a representative taxpayer to determine the range of possibilities the effect might result in. These changes are looked at *ceteris paribus*, meaning that the effect of one change is looked at in isolation and not together with its interaction with any other possible changes.

The selection of elements was determined to try to balance the inclusion of elements that applied to the greatest number of taxpayers and, as such, provides an exploratory attempt at quantification which is robust and representative but by design not complete and conclusive of the entire South African Income Tax Act. The selected elements include exemptions, exclusions, rebates, and the tax bands and rates applicable to individual taxpayers. The taxation of companies was not included as part of this investigation.

The selection of the appropriate inflation rates is fundamental to the quantification of the effects of fiscal drag. While core inflation includes all items within an economy, the Consumer Price Index (CPI) measures the rate of price change of goods and services purchased by households. It measures changes in the average level of prices over some time period. CPI is the most frequently used indicator of inflation and reflects changes in the cost of acquiring a fixed basket of goods and services by the average consumer (Investing.com, 2024). For these reasons, CPI has been selected as the most appropriate proxy for inflation and for use within this study. For the 2025 tax year, the most recent CPI data was used, that of May 2025, as an approximation for the period under examination relating to the 2025 tax year which runs from 1 March 2024 until 28 February 2025. For all other years, the CPI matching the respective years ending 28 or 29 February was used.

Exemptions - s10(1)(i) - South African source interest income

An exemption refers to an amount that has been included in gross income but is considered non-taxable, either in full or up to a specified limit (Koekemoer, 2023). In the case of s10(1)(i), it is stated that a natural person will be entitled to exempt an amount from gross income annually to the extent stated within the mentioned section. It is currently enacted that the first R 23 800 per annum of any South African source interest earned by a natural person would be exempted, and not subject to income tax.

This annual limit increases to R34 500 when the taxpayer is equal to or exceeds the age of 65.

To quantify the effect that fiscal drag would have on this exemption, the growth of this exemption over the examined period would need to be compared to the associated increase in inflation over the same period. The assumption taken concerning the analysis of this exemption is that a taxpayer is in a position whereby investment income in the form of South African interest already exceeds the annual limit presented. If a taxpayer does not earn interest income from a South African source or earns interest income from a South African source which is below the stated limits, then there would be no effect of fiscal drag present.

If a taxpayer were to earn inflationary linked growth and the yearly limits of s10(1)(i) were to increase at a commensurate rate, the taxpayer would be in a neutral position regarding taxation payable and real disposable income. If, however, a taxpayer was to earn an inflationary linked growth rate and the increase in the s10(1)(i) limit was below such inflationary linked gains, the taxpayer would be in a position whereby taxation payable would increase, without a commensurate increase in real disposable income, i.e. fiscal drag would be taking place. For quantification, any increase in taxable income must be multiplied by the taxpayers' prevailing marginal tax rate to quantify its effects, ceteris paribus, in rand terms. It must be noted that s10(1)(i) has not been adjusted within the prior 10 years and as such there is no yearly growth of the limits for the period examined.

A low level of marginal tax rate is set at the marginal rate of 18%, a medium level of marginal tax rate is set at the marginal rate of 36%, and a high level of marginal tax rate is set at the marginal rate of 45% for this examination.

The quantification of fiscal drag about the s10(1)(i) limits for each year can thus be calculated as:

$$\frac{((\text{Value of exemption}_{(\text{Year } 1)} \times (1 + \text{Inflation rate}_{(\text{Year } x)} - \text{Value of exemption}_{(\text{year } X)} + 1)) \times \text{Applicable marginal tax rate}}{1}$$

Exclusions - Capital Gains Tax (CGT)

Exclusions refer to a quantum of gains or losses that are excluded from the calculation of taxable income in some form. In the context of CGT, there exist both general and specific exclusions (Koekemoer, 2023). The effect of these exclusions is to exclude a gain or a loss from being included in the calculation of a taxpayer's capital gain or capital loss for the period. Excluding a capital gain would have the effect of reducing the ultimate inclusion of amounts in a taxpayer's taxable income while excluding a capital loss would have the effect of increasing the taxpayer's taxable income as the capital loss would not be set off against any other possible gains. In both cases, if a taxpayer has no capital disposals in the applicable period, the quantification in such a period would be zero. As such, for this examination, it is assumed that a taxpayer has capital gains that exceed the prescribed annual general thresholds. These thresholds are currently R40 000 per annum for a natural person and this is increased to R 300 000 in the year of death of a natural person.

In addition to the annual exclusion, there also exists an exclusion on a primary residence, being a taxpayer's main home or place of living, which currently is R 2 000 000 per disposal of primary residence. If a taxpayer's accumulated gain on their primary residence is below R 2 000 000, the effect of fiscal drag would be zero until such a time as that value has increased beyond R 2 000 000 above the base cost of such an asset.

To quantify the effect that fiscal drag would have from these exclusions, the growth of these exclusions over the examined period would need to be compared to the associated increase in inflation over the same period. The assumption taken about the analysis of this exclusion is that a taxpayer is in a position whereby

capital gains within a period already exceed the limits presented. If a taxpayer does not have any capital disposals or has disposals below the annual limits then there would be no effect of fiscal drag present. Additionally, it must be noted that an exclusion would also have the effect of excluding a capital loss from reducing a taxpayer's taxable income; however, this is not included as part of this examination.

If a taxpayer was to have capital gains which grew at yearly levels linked to inflation and the general and specific CGT exemptions were to increase at a commensurate rate, the taxpayer would be in a neutral position regarding taxation payable and real disposable income. If, however, a taxpayer were to earn capital gains and the increase in the general and specific capital gains exclusions were below such inflationary linked gains, the taxpayer would be in a position whereby taxation payable would increase, without a commensurate increase in real disposable income, i.e. fiscal drag would be taking place.

For quantification, any increase in taxable income must be multiplied by the taxpayer's prevailing marginal tax rate to quantify its effects, ceteris paribus, in rand terms. It must also be noted that any net capital gains (after the application of the exclusions) are included in the taxable income of a natural person at an inclusion rate of 40%, which is then further affected by the taxpayer's marginal tax rate. For quantification, the inclusion rate of 40% was last updated in 2018, and thus changes to it are not relevant to this examination (Koekemoer, 2023).

A low level of marginal tax rate is set at the marginal rate of 18%, a medium level of marginal tax rate is set at the marginal rate of 36%, and a high level of marginal tax rate is set at the marginal rate of 45%.

The quantification of fiscal drag in relation to the exclusions for CGT for each year (or disposal for Primary residences) can thus be calculated as:

$$\frac{((\text{Value of exclusion}_{(\text{Year } 1)} \times (1 + \text{Inflation rate}_{(\text{Year } x)}) - \text{Value of exclusion}_{(\text{year } X + 1)}) \times \text{Applicable marginal tax rate}}$$

Rebates - Annual and medical

A rebate refers to a quantum of tax payable which is reduced by the value of the rebate to result in the taxpayer paying less tax. Every natural person is entitled to an annual rebate which is based on their age. Every taxpayer under the age of 65 is entitled to a primary rebate, a taxpayer equal to or exceeding the age of 65 is additionally entitled to a secondary rebate, and a taxpayer equal to or exceeding the age of 75 is furthermore additionally entitled to a tertiary rebate.

The effect of these rebates is to reduce a natural person's taxation payable. If a taxpayer has no taxable income, they will have no taxation payable, and a rebate will have no benefit to the taxpayer, as a rebate cannot be refunded if it is unused. For quantification, it is assumed that a taxpayer has sufficient taxation payable to fully utilize any rebates to which they are entitled. These rebates are currently set at R17 235 per annum for a natural person below the age of 65 in the 2025 year of assessment. In addition, once a taxpayer reaches the age of 65, an additional rebate of R 9 444 is introduced. Likewise, once the age of 75 is attained a further additional rebate of R 3 145 is introduced. These rebates have been increased annually in each of the prior years, except the rebates for 2025 which are identical to 2024 (Wasserman, 2024).

Medical rebates as outlined in s6A are dependent on the natural person being the contributing member of a medical aid. The quantum of the rebate is based on the number of dependents covered by such medical aid, with the first 2 members each receiving a rebate of R 364 per month in the 2025 year of assessment, and every additional member after the first two receiving an additional monthly rebate of R246. These rebates

have been increased annually in each of the prior years under examination except the rebates for 2025 which are identical to 2024 (Malinga, 2024).

To quantify the effect that fiscal drag would have from these rebates, the growth of these rebates over the examined period would need to be compared to the associated increase in inflation over the same period. The assumption taken concerning the analysis of these rebates is that a taxpayer is in a position whereby taxation payable exceeds the sum of all applicable rebates. If a taxpayer does not have any taxable income and thus no taxation payable, or if the taxation payable falls below the rebates offered, then there would be no effect of fiscal drag present.

If a taxpayer were to have taxation payable which grew at yearly levels linked to inflation and the afforded rebates were to increase at a commensurate rate, the taxpayer would be in a neutral position regarding taxation payable and real disposable income. If, however, a taxpayer was to increase their taxable income and therefore taxation payable and growth of such rebates were below such inflation-linked increases in taxable income and taxation payable, the taxpayer would be in a position whereby taxation payable would increase, without a commensurate increase in real disposable income, i.e. fiscal drag would be taking place.

For quantification, any change in rebates results in a rand-for-rand effect on the disposable income of a taxpayer, as a rebate is a reduction of taxation payable which has already been determined using the taxpayer's marginal tax rate and, as such, is not dependent on the level of income of a taxpayer.

The quantification of fiscal drag in relation to any rebates can thus be calculated as:

$$\frac{(\text{Value of rebates}_{(\text{Year } 1)} \times (1 + \text{Inflation rate}_{(\text{Year } x)}) - \text{Value of rebates}_{(\text{year } X + 1)}) \times \text{Applicable marginal tax rate}}$$

Tax rates - Thresholds (bands) and marginal rates

South Africa operates a progressive taxation regime concerning individuals whereby, as taxable income levels increase, a taxpayer pays a greater percentage proportionally in taxation. This is achieved through the use of a progressive tax table which categorizes individuals into bands, with each band having qualifying levels of taxable income and a corresponding rate of taxation for that band (Weller & Rao, 2010).

As an individual, every taxpayer is subject to the same table, with the table being agnostic to age, gender, or type of employment. The effect of the marginal tax rates and bands is that, as a taxpayer earns greater levels of taxable income, the taxation payable will increase at an increasing rate. If a taxpayer has no taxable income, they will have no taxation payable and, as such, there will be no effect of fiscal drag. For quantification, it is assumed that a taxpayer has sufficient taxable income that they are in a position to pay taxation. This would mean that a taxpayer is above the tax threshold, a level above which the effects of the rebates afforded to an individual result in a taxpayer not having any taxation payable. These tax rates range from 18% to 45% with taxpayers paying a marginal rate of 45% on taxable income above R 1 817 000 in the 2025 tax year (Koekemoer, 2023).

To quantify the effect that fiscal drag would have from these changes to the marginal tax rates and bands, the growth of these marginal tax rates and bands over the examined period would need to be compared to the associated increase in inflation over the same period. The assumption taken concerning the analysis of these marginal tax rates and bands is that a taxpayer is in a position whereby they are earning enough to have sufficient taxable income to be above the tax threshold. If a taxpayer does not have any taxable income and thus no taxation payable or the taxation payable falls below the rebates offered then there would be no effect of fiscal drag present.

If a taxpayer was to have taxable income which grew at yearly levels linked to inflation and the afforded marginal tax rates and bands were to increase at a commensurate rate, the taxpayer would be in a neutral position regarding taxation payable and real disposable income. If, however, a taxpayer were to increase their taxable income and therefore taxation payable and growth of such marginal tax rates and bands were below such inflation-linked increases in taxable income and taxation payable, the taxpayer would be in a position whereby taxation payable would increase, without a commensurate increase in real disposable income, i.e. fiscal drag would be taking place.

For quantification, any change in marginal tax rates and bands would need to be examined both concerning the change in the bands themselves as well as the rate applicable to each band. These bands have been changed annually, except in 2025 (Leathern, 2024). The last year prior in which the tax tables were not updated was in 2020, which is not in the period of examination (Koekemoer, 2023). The last change to the marginal tax rates themselves took place during the 2018 year of assessment when the maximum rate was increased from 41% to 45% (Sow, 2017). This change does not apply to this examination, however, as it is not within the five-year scope.

Additionally, given that the effect of fiscal drag would be greatly dependent on the level of taxable income of a taxpayer, three levels of income will be used for quantification. A low level is set at a taxable income which is at the limit of the 18% tax band each year, a medium level of taxable income is set at the limit of the 36% tax band each year, and a high level is set at the limit of the 45% tax band each year.

The quantification of fiscal drag in relation to changes in marginal tax rates and bands can thus be calculated as:

$$\begin{aligned}
 & ((\text{Normal tax before rebates based on taxable income}_{\text{Year } X-1} \\
 & \quad [\text{at commencement of applicable tax band}]_{\text{Year } X} \\
 & - 1) [\text{based on tax tables from}]_{\text{Year } X-1}) + (1 \\
 & + [\text{Inflation}]_{\text{Year } X})) \\
 & - ((\text{Normal tax before rebates based on taxable income}]_{\text{Year } X} \\
 & - 1) [\text{at commencement of applicable tax band}]_{\text{Year } X} \\
 & - 1) \times (1 \\
 & + [\text{Inflation}]_{\text{Year } X})) [\text{based on tax tables from}]_{\text{Year } X})
 \end{aligned}$$

As an example of the above formula, in the 2023 year of assessment. A taxpayer classified as a lower income earner would have had their first R216 200 of income taxed at 18% in the previous year, and the first R226 000 taxed at 18% in the current year. If the R 216 200 had increased by inflation of 7%, then the first R231 334 would have been expected to have been taxed at 18%, however, only the first R 226 000 would now be taxed at 18%. This differential of R 5 334 would now be taxed at the next higher marginal rate of 26% instead of the expected rate of 18%. As such the effect of the differential of rates being 26% - 18% = 8% multiplied by the R5 334 would give the effect of fiscal drag at this step of the tax bands. In this instance, the effect would be R 427. The same process is used for the steps of 31% to 36% as well as 41% to 45%.

It must further be noted that in this analysis the hypothetical taxpayer's income is reset each year to the upper limit of a band as per the previous year to as to isolate the effect for a single year. In actuality, the taxpayer's taxable income may have compound inflationary growth which is not analyzed in this research. This would further increase the effect of fiscal drag in some cases.

RESULTS

As shown in Appendix B, the results show that the effects of fiscal drag on selected elements of the South African Income Tax Act over the five years from 2021 to 2025 are present and considerable.

The largest contributor to the quantification is the primary residence exclusion from capital gains tax. At the rate of R 2 000 000, and with no increases in the examined period, a person who is the owner of a primary residence would in effect be subject to a possible further R 95 040 in taxation burden because the exclusion has not been adjusted at all during the examined period. This effect however would only apply to a limited subset of the population and would generally only occur sporadically thus the results for this would tend to overemphasize the true generalized presence of fiscal drag. The other effects related to capital gains exemptions are smaller with cumulative effects reaching R 1 900 over the five years for those who have not died, and R 14 256 if a taxpayer was to pass away. If the taxpayer was to pass away, this would be a one-time taxation event only.

Interest exemption-related effects had up to the cumulative total of R 2 828 and R 4 089 for those under or over 65 respectively. These effects would only apply to taxpayers making use of the full annual exemption for interest income.

Results that would be expected to be experienced by the larger majority of the population would be those related to annual rebates, medical rebates, and the adjustment of the taxation bands. The annual rebates at their maximum have an effect of an additional R 1 956 for a taxpayer over the age of 75, and for a taxpayer who has 4 members on their medical aid, the effect would be a cumulative total of R 1 384. Furthermore, the increase in the bands of taxation each year has generally resulted in a contribution to fiscal drag, as they have been increasing at a rate generally below inflation. These increases however are not as large as the increases related to capital gains. A taxpayer could have up to an additional R13 159 in additional taxation burden over the five years simply due to adjustments of the taxation bands being below inflation for four of the five examined periods.

The only situation whereby there has been a reduction in fiscal drag was in the year 2021. This was due to the low inflation rate of 2,1% mainly attributable to the COVID-19 pandemic (Gotu & Tadesse, 2023). In this year, the taxation bands, as well as annual rebates both increased at a rate above inflation resulting in a reduction of fiscal drag for that period. This however was not repeated in any subsequent year, for any of the examined sections. The only section where fiscal drag proved to be negligible was concerning medical aid credit rebates where the inflation rate and the increase were almost identical in the 2021 year of assessment.

Overall, it can be shown that should a taxpayer have sufficient South African interest income, be over the age of 75, own a primary residence that has growth over the value of R2 million as well as other capital gains, be a member of a medical aid with a total of 4 members, and earns income in the highest threshold, the total effect related to fiscal drag over the period would be R 117 537 summarized as follows:

Table 1: Quantification of fiscal drag for representative taxpayer 1

Area examined	Effect of Fiscal Drag
s10(1)(i) - South African source interest income	R 4 098
CGT exclusion – Annual	R 1 900
CGT exclusion – Primary residence	R 95 040
Annual rebates	R 1 956
Medical rebates	R 1 384
Adjustments to tax bands	R 13 159
Total Effect	R 117 537

This would increase to R 129 893 if they were to pass away in the year and utilize their full CGT exclusion due to death.

If a taxpayer does not have a primary residence which has growth over the value of R2 million, the effects do become quite dampened. As an example, if a taxpayer

does not have South African interest income, is below the age of 65, does not own a primary residence or the growth thereon does not exceed the value of R2 million, has no other capital gains, is not a member of a medical aid, and earns income within the 18% band, the total effect related to fiscal drag over the 5 years would only be a maximum of R 2 772.

Table 2: Quantification of fiscal drag for representative taxpayer 2

Area examined	Effect of Fiscal Drag
Annual rebates	R 1 171
Adjustments to tax bands	R 1 601
Total Effect	R 2 772

In summation, the above results prove the hypothesis that fiscal drag is present and quantifiable within the selected elements of the South African Income Tax Act over the 5 years from 2021 to 2025.

RECOMMENDATIONS

By having access to a quantifiable effect of fiscal drag, taxpayers would be able to better budget and prepare for the effects the reduced purchasing power would have on their disposable income year on year. Taxpayers would also be made more aware of the need for tax planning to minimize the effects that any taxation-related changes (or lack thereof) may have on their disposable income.

LIMITATIONS & FUTURE RESEARCH

Some limitations of the research conducted include the fact that the research was limited to natural persons, was limited to only the previous five years and also only examined selected elements of the Income Tax Act. Future possible research would include an expanded examination of further applicable elements of the taxation act, a longer time horizon as well as the examination of the effect on non-natural persons. It would also be of investigative benefit to compare the

effect of fiscal drag experienced in South Africa to other countries with a similar profile.

CONCLUSION

It can be seen that with the annual increases of taxation-related limits and bands, the mechanism of fiscal drag results in reduced purchasing power for taxpayers, as taxation payable increases at a relatively higher rate than inflationary increases in earnings. This proves the hypothesis that fiscal drag is present and quantifiable within the selected elements of the South African Income Tax Act over the 5 years from 2021 to 2025.

This result has proved true for all periods except for select elements of 2021 and has shown that the lack of increases in the tax bands in 2025 has the greatest effect when quantifying the effect of fiscal drag. This investigation and the quantification of the effect of fiscal drag show that taxpayers within South Africa are in a position that has placed them under increased financial pressure over the five years from 2021 until 2025 and that their purchasing power may decrease as a result of fiscal drag within the system of income tax in South Africa up to a possible value of R129 823.

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APPENDICES:**Appendix 1: Source data used for the calculation of the quantification of fiscal drag**

		2021	2022	2023	2024	2025
Exemptions:						
South African interest exemptions	Under 65	23 800	23 800	23 800	23 800	23 800
	Over 65	34 500	34 500	34 500	34 500	34 500
Exclusions						
CGT annual exclusion	General	40 000	40 000	40 000	40 000	40 000
	Upon death	300 000	300 000	300 000	300 000	300 000
Primary residence exclusion		2 000 000	2 000 000	2 000 000	2 000 000	2 000 000
Annual Rebates	Primary	14 958	15 714	16 425	17 325	17 235
	Secondary (65 and older)	8 199	8 613	9 000	9 444	9 444
	Tertiary(75 and older)	2 736	2 871	2 997	3 145	3 145
Medical aid credit rebates (per month)	1 Member	319	332	347	364	364
	2 Members	638	664	694	728	728
	Each additional member	215	224	234	246	246
Taxable income levels at the commencement of each applicable tax band:						
	Low - Commencement of 26% band	205 900	216 200	226 000	237 100	237 100
	Low - Growth rate year on year	5.12%	5.00%	4.53%	4.91%	0.00%
	Medium - Commencement of 36% band	445 100	467 500	488 700	512 800	512 800
	Medium - Growth rate year on year	5.15%	5.04%	4.53%	4.93%	0.00%
	High - Commencement of 45% band	1 577 300	1 656 600	1 731 600	1 817 000	1 817 000
	High - Growth rate year on year	5.15%	5.03%	4.53%	4.93%	0.00%
		Feb-21	Feb-22	Feb-23	Feb-24	May-24
Inflation - year on year CPI	Annual rate	2.90%	5.70%	7.00%	5.60%	5.20%

Appendix 2: Results of the quantification of the effects of fiscal drag on selected elements of the South African Income Tax Act over the five years: 2021 to 2025

		2021	2022	2023	2024	2025	Cumulative absolute value
South African interest exemption	Under 65						
	Low tax rate (18%)	124	244	300	240	223	1 131
	Medium tax rate (36%)	248	488	600	480	446	2 262
	High tax rate(45%)	311	610	750	600	557	2 828
	Over 65						
	Low tax rate (18%)	180	354	435	348	323	1 640
	Medium tax rate (36%)	360	708	869	696	646	3 279
	High tax rate(45%)	450	885	1 087	869	807	4 098
Capital gains tax exemptions	Annual (40k)						
	Low tax rate (18%)	84	164	202	161	150	761
	Medium tax rate (36%)	167	328	403	323	300	1 521
	High tax rate(45%)	209	410	504	403	374	1 900
	Upon death (300k)						
	Low tax rate (18%)	626	1 231	1 512	1 210	1 123	5 702
	Medium tax rate (36%)	1 253	2 462	3 024	2 419	2 246	11 404
	High tax rate(45%)	1 566	3 078	3 780	3 024	2 808	14 256
	Primary residence (2 000k)						
	Low tax rate (18%)	4 176	8 208	10 080	8 064	7 488	38 016
	Medium tax rate (36%)	8 352	16 416	20 160	16 128	14 976	76 032
	High tax rate(45%)	10 440	20 520	25 200	20 160	18 720	95 040
Rebates							
Annual rebates for natural persons	Under 65	- 326	97	389	20	991	1 171
	Over 65	- 179	53	216	60	491	641
	Over 75	- 135	21	75	20	164	144
Medical aid credit rebates (over 12 months)	1 Member	-	62	99	29	227	417
	2 Members	-	124	198	58	454	834
	4 Members	1	203	334	85	761	1 384
Effect on normal tax payable at the commencement of each applicable tax band							
	Low - Commencement of 26% band	-	114	427	124	936	1 601
	Medium - Commencement of 36% band	- 695	370	1 420	406	3 282	4 783
	High - Commencement of 45% band	- 1 864	1 012	3 899	1 108	9 004	13 159

EASTERN CAPE REGIONAL CONFERENCE

THEME: Future of our profession's education with banners for future of Tax Education; Audit, governance, Ethics education, Accounting, sustainability

HOSTED: 27 September 2024

Access for Success: Performance of Higher Certificate in Accountancy Graduates

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Purpose: The purpose of the study was to determine the performance of Higher Certificate in Accountancy graduates in the primary accountancy modules, namely Financial Accounting 1 and Cost and Management Accounting 1 and compare these results with students' performance who were admitted directly onto the Diploma in Accountancy programme from high school.

Design/methodology/approach: The study followed a positivist, quantitative, exploratory approach and analysed secondary data collected from a higher education institutions Management Information System to address the research question and objective of the study.

Findings: The findings of the study indicate that the Higher Certificate in Accountancy graduates achieved higher pass rates as well as higher average marks in the primary accountancy modules, for each year under review in the study, compared to those students who were admitted directly into the Diploma in Accountancy programme.

Originality/contribution: The study is useful in highlighting the importance of well-structured and meaningful foundational programmes. Furthermore, the foundation instilled during the offering of the primary accountancy modules on the Higher Certificate programme is evident by the data reviewed and thus supports the need for such foundational programmes.

Keywords: Access, Diploma in Accountancy programme, first-year experience, first-year accountancy modules, first-year performance, foundation programmes, Higher Certificate in Accountancy, success.

INTRODUCTION AND BACKGROUND

South Africa has set goals in the National Planning Commission (NDP) 2023 to reduce inequality, eradicate poverty, grow the economy and reduce the rate of unemployment to 6% by 2030 (NPC, 2012). The NPC (2012) recognises the importance of education, training and innovation in achieving these goals and envisions the improvement thereof (NPC, 2012). Those individuals with higher education qualifications have a higher probability of being employed and have the prospect of earning higher incomes in labour markets (World Bank, 2019). South Africa's unemployment rate reached 32.1% in the fourth quarter of 2023, which comprised individuals who completed Grade 12 at 34% and individuals with higher education qualifications at 10% (Cowling, 2024).

Higher education institutions should lead and implement transformation by making higher education accessible to all social classes and races (Mzangwa, 2019). UNESCO IESALC (2020) argues that equitable access to higher education is a vital component of social justice and the development of a country.

Furthermore, governments, in collaboration with higher education institutions, should design and execute policies that secure equal access to higher education for groups previously excluded, which integrate academic, psychosocial, and financial support (UNESCO IESALC, 2020). Higher education institutions should accept students who are academically less prepared and provide them with targeted support to ensure equity of access and success (NPC, 2012). Along with being an alternative access route into higher education, foundational education has a positive impact on the first-year performance of students (Curtis, Wikaire, Jiang, McMillan, Loto, Fonua, Herbert, Hori, Ko, Newport, Salter, Wiles, Reid & Reid, 2015). The provision of foundation programmes by higher education institutions to first-year students in South Africa, should be the rule, not the exception (Shay, 2017).

The Higher Certificate in Accountancy programme was introduced at an Eastern Cape university with the purpose of providing access to learners who do not meet the direct admission requirements for the Diploma in Accountancy programme. The Higher

¹ This paper is partially based on the dissertation/thesis of Lee-Ann van Niekerk (first author), presented for the Master of Commerce (Accounting) degree at the Nelson Mandela University with supervisors and co-authors Tracy Beck and Bradley van der Ross.

Certificate in Accountancy programme requires a lower applicant score (AS) for admission into the programme, than the Diploma in Accountancy programme. Learners who may come from less resourced educational backgrounds and thus may be academically less prepared for higher education studies, are enabled to gain access into higher education via the Higher Certificate in Accountancy programme. The purpose of the Higher Certificate in Accountancy programme is to develop and support learners, who would otherwise not have had the opportunity to enter into higher education studies. The programme aims to improve academic literacy skills and to provide a solid foundation for accountancy modules in preparation for further study in the Diploma in Accountancy programme. Therefore, the Higher Certificate in Accountancy programme aims to provide access for success to those learners who do not qualify to enter higher education studies.

The research study focuses on first-time registered, first-year students enrolled for the modules Financial Accounting 1 and Cost and Management Accounting 1. First-year students in the Diploma in Accountancy programme include Higher Certificate in Accountancy graduates who have continued their higher education studies and students who have been admitted directly into the programme. Higher education institutions should provide the necessary support to academically less prepared students to ensure equity of access and success.

Based on the above, the following research question is formulated: Does the Higher Certificate in Accountancy programme provide graduates with the adequate foundation to be successful in the primary accountancy modules offered on the Diploma in Accountancy programme compared to first-time registered students entering a higher educational institution? The research objective of this study is to determine the performance of Higher Certificate in Accountancy graduates in the primary accountancy modules, namely Financial Accounting 1 and Cost and Management Accounting 1 and compare these results with students' performance who were directly admitted onto the Diploma in Accountancy programme from high school.

This research study forms part of a comprehensive study which aimed at determining the performance of Higher Certificate in Accountancy graduates in their

first-year Diploma in Accountancy programme at the Nelson Mandela University (van Niekerk, 2022). This article is structured as follows, first a literature review examines access for success, expectation versus reality and the first-year transition into higher education studies. In addition, the theories underpinning the study namely the social inclusion theory and Vincent Tinto theory is contextualised. Thereafter, the research methodology, findings and a discussion thereof are provided. Finally, evidence of validity and reliability of the study, conclusions and recommendations are made as well as areas for future research are provided.

LITERATURE REVIEW

Access for success

The majority of school-leavers' successes and failures in higher education are influenced by their poor social and academic background (Sehoole & Adeyemo, 2016). Higher education institutions should facilitate epistemological access by introducing interventions that will ensure success in higher education through the acquisition of the required academic literacies and social capital (Sehoole & Adeyemo, 2016). According to Lubbe (2015), the higher education system in South Africa faces challenges such as massification of undergraduate education, curriculum requirements and students that are underprepared for higher education studies. The higher education system has responded to these challenges by introducing academic support programmes (Lubbe, 2015). These academic support programmes have been introduced since 2004, with the purpose of promoting access to students who do not meet the minimum institutional admission requirements and improving the success of students who come from disadvantaged educational backgrounds (Council of Higher Education [CHE], 2013).

As more learners have gained access into the higher education system, since the early 1990's, South African higher education institutions have been experiencing massification (Msiza, Ndhlovu & Raseroka, 2020). Such massification has resulted in large numbers of students entering higher education, with learning challenges, due to marginalised and poorly resourced educational and socio-economic backgrounds (McGhie, 2012). Appropriate and adequate support should be offered to first-year students, who require such support, in a massified higher education system, to enable students

to cope with the challenges of university life and the lack of preparedness for higher education studies (Moeketsi & Mgutshini, 2014).

Expectation versus reality

The gap between student expectations and the realities of university life can cause distress and thus lead to poor academic performance (Hassel & Ridout, 2018). According to published research (Harvey & Drew, 2006; Pather & Chetty, 2016; Saunders, 2018), student expectations of higher education are the most important factors which influence student dropout. Unmet student expectations impact negatively on performance, engagement, and general satisfaction (Lobo & Gurney, 2014). Therefore, universities should endeavour to minimise the gap between students' expectations and institutional expectations of university life, to ensure a successful transition into higher education studies (Hassel & Ridout, 2018). Webb and Cotton (2018) found that students who enter higher education expect extensive participation in lectures of traditional format and find it difficult to adjust to a different reality. These authors (Webb & Cotton, 2018) recommend that student expectations in respect of teaching approaches, be realigned through induction programmes. Conversely, students who regarded one-to-one contact with teaching staff to be inadequate, were more likely to consider dropping out of higher education, than their peers (Webb & Cotton, 2018). Students who did not expect to be taught in large classes, perceived it as a lack of personal attention, compared to their high school education experiences (Harrison, 2006). The applicant-day experience, also known as open-days, are mechanisms which higher education institutions use to orientate first-year students and can be used to communicate expectations regarding their chosen academic programme (Smith, 2017). Students who experienced assessments to be excessive in relation to the expected number of assessments, were more likely to consider dropping out of higher education (Webb & Cotton, 2018). It is recommended that lecturers have sessions to discuss assessment requirements and procedures with students, to ensure expectations are aligned regarding assessments (Smith, 2017).

The first-year transition into higher education studies

First-year students face a myriad of new challenges and demands as part of university life (Pretorius & Blaauw, 2020). Many first-year students in South Africa are also first-generation students and therefore, their parents and family don't understand their experiences or the challenges they face at university (Fundi Connect, 2021). The daily realities of first-generation students often include emotions of anxiety and displacement (Christie, Tett, Cree, Hounsell & McCune, 2008). Higher levels of stress are experienced by students in the first year of higher education, than when they were in high school (Bewick, Koutsopoulou, Miles, Slaa & Barkham, 2010). Pretorius and Blaauw (2020) suggest that feeling at home at university will make the adjustment to university life easier. According to Duke (2021), first-year students experience homesickness, feelings of being disconnected, managing social and cultural diversities and managing relationships at home and university.

A sense of belonging for first-year students include feeling connected to the institution together with academic and social engagement (Thomas, 2012). Supportive peer relations, meaningful interactions between staff and students and the development of knowledge and confidence, further support a sense of belonging (Thomas, 2012). Pather, Norodien-Fataar, Cupido and Mkhonto (2017) found that a first-year experience mentorship programme created an increased sense of belonging for first-year students, peer engagement and academic success, even though students would normally spend their time on academic engagement, instead of such social support services at the university, due to their challenged backgrounds. Pretorius and Blaauw (2020) highlight financial issues as another important factor influencing the first-year transition into higher education. According to Lekena and Bayaga (2018), more than 50% of students drop out of higher education, due to the financial burden of university costs.

THEORY UNDERPINNING THE STUDY

Graduates of the Higher Certificate in Accountancy programme who have embarked upon further studies by registering for the Diploma in Accountancy programme have had an opportunity to integrate into

'university life' as a student and more importantly, have an opportunity to continue with higher educational studies. The theoretical frameworks adopted for the study is thus the social inclusion theory and Vincent Tinto's theory. The World Bank Group (2024) defines social inclusion as "... the process of improving the terms on which individuals and groups take part in society-improving the ability, opportunity, and dignity of those disadvantaged on the basis of their identity". Inclusive education supports successful learning and is beneficial for all learners (Robo, 2014). Social inclusion is associated with the belief of neoliberalism (Gidley, Hampson, Wheeler & Bereded-Samuel, 2010). From the viewpoint of neoliberal ideologies, increasing social inclusion is about strengthening the skills gap and investing in human capital with the main aim of economic growth as part of a nationalist agenda to develop a country's economy to better compete in the global market (Gidley *et al.*, 2010).

Higher education is essential for the development of a nation and uplifting of social standards (Mzangwa, 2019). Through higher education, opportunities are provided for social advancement by acquiring the necessary knowledge, skills and competencies, thereby supporting equity and social justice (Sehoole & Adeyemo, 2016). Furthermore, higher education equips individuals with high-level skills that enable them to embark on professional careers (Atherton, Dumangane, & Whitty, 2016). The NDP 2030 recognises that skilled professionals are required in South Africa, to address the skills shortages which exist across various sectors in the country, especially business, industry and government. Occupations that are in high demand in South Africa, listed in the Government Gazette include Financial Accountant, Management Accountant, Tax Professional, Internal Auditor and Internal Audit Manager (Department of Higher Education and Training [DHET], 2024).

Vincent Tinto is well-known for developing theories and models relating to student persistence and retention. Pre-university attributes of learners and their higher education experience are linked to student retention and success in Tinto's (1993) revised student integration model. The student integration theory is pertinent to the current study and supports the objective of the Higher Certificate in Accountancy programme. According to Tinto (1993), one of the key factors influencing students' persistence is academic

integration, which is facilitated by additional support interventions. Tinto (1993) asserts that a student's intellectual and social integration into university life can lead to persistence. The Higher Certificate in Accountancy programme accepts underprepared students from diverse and possibly substandard educational backgrounds and provides these students with additional support.

RESEARCH DESIGN AND METHODOLOGY

Research paradigm

This research study adopted a positivistic research philosophy based on a deductive approach. Thus, a quantitative research methodological paradigm was deemed most suitable given the nature of the research study and that the collection and analysis of numerical data was collected to address the research question and achieve the research objective of the study. According to Allen (2017), quantitative research is dependent on data that are measured and observed to answer questions regarding the sample population. Quantitative research examines the relationship between variables, which are measured to facilitate the analysis of numeric data (Creswell & Creswell, 2018). The researchers collected and analysed secondary data from the institutions Management Information System. The overall results obtained for the primary accountancy modules namely, Financial Accounting 1 and Cost and Management Accounting 1 collected by the institution constitute primary data. The subsequent pass rates which are determined by the university for reporting and/or research purposes also constitute primary data.

Population and sampling

Higher Certificate in Accountancy graduates and first year Diploma in Accountancy students constitute the population of the study. The sample of the study consisted of first time registered first-year accountancy students which included Higher Certificate in Accountancy graduates registered for the primary accountancy modules namely, Financial Accounting 1 and Cost and Management Accounting 1 in Years 1 to 5. The study undertook to compare the performance of Higher Certificate in Accountancy graduates to that of students who were admitted directly into the Diploma in Accountancy programme in the identified primary

modules. Data was collected for five academic years referred to as Year 1, Year 2, Year 3, Year 4, and Year 5. The study does not refer to calendar years to ensure the anonymity and confidentiality of all students in adherence with the Institutions Research Ethics Committee.

Data analysis

The results of the primary accountancy modules were analysed by generating average percentages and presenting comparisons in tabular form. The data was obtained from the institution's MIS and analysed using Microsoft Excel. The pass rates and performance in the primary accountancy modules of all first time first-year registered students in the Diploma in Accountancy programme were determined. Based on this data a comparison was made between Higher Certificate in Accountancy graduates and those students who had obtained direct admission into the Diploma in Accountancy programme.

ETHICAL CONSIDERATION

The researchers ensured that the study adhered to ethical standards by obtaining ethics approval from the Institutions Research Ethics Committee (Human) prior to collecting and using data from the university's MIS. No data was collected directly from human participants as secondary data were used and analysed by academic

period and not academic years. To ensure anonymity and that no student can be traced to a specific year, the names and student numbers of students were not identified in the study and academic years were referred to as Year 1, Year 2, Year 3, Year 4 and Year 5.

FINDINGS AND DISCUSSION

The research study aims to determine whether the Higher Certificate in Accountancy programme provided an adequate foundation for graduates in the primary accountancy modules, who had enrolled for the Diploma in Accountancy programme. The foundation is determined by comparing the first-year results in the Diploma in Accountancy programme of graduates versus students who were admitted directly into the Diploma in Accountancy programme. The primary accountancy modules namely Financial Accounting 1 and Cost and Management Accounting 1 were selected as these modules are offered on both the Higher Certificate in Accountancy and Diploma in Accountancy programmes.

Table 1 provides a comparison of the pass rates in respect of the primary modules, at the end of the first year, between Higher Certificate in Accountancy graduates and students admitted directly into the Diploma in Accountancy programme.

Table 1: Pass rates – Financial Accounting 1 and Cost and Management Accounting 1

Period	Financial Accounting 1		Cost and Management Accounting 1	
	Higher Certificate in Accountancy Graduates	Direct admissions into Diploma in Accountancy	Higher Certificate in Accountancy Graduates	Direct admissions into Diploma in Accountancy
Year 1	94%	56%	100%	66%
Year 2	74%	62%	97%	67%
Year 3	73%	50%	94%	76%
Year 4	71%	49%	98%	79%
Year 5	82%	56%	98%	81%

The comparison in Table 1 indicates that Higher Certificate in Accountancy graduates achieved higher pass rates in the primary accountancy modules, for each year under review in the study. Financial Accounting 1 pass rates for students admitted directly into the Diploma in Accountancy programme range from 49% to 62%, while the pass rates for Higher Certificate in Accountancy graduates range from 71% to 94%. Cost and Management Accounting 1 pass rates for students admitted directly into the Diploma in Accountancy programme range from 66% to 81%,

while the pass rates for Higher Certificate in Accountancy graduates range from 94% to 100%.

Furthermore, the performance in the primary accountancy modules of the two groupings is considered, at the end of the first year in the Diploma in Accountancy programme. In the research study, performance comprises the average marks obtained by students who have passed the primary accountancy modules, as well as analysing the final marks of students who have passed the primary modules, in

terms of the number of students who obtained 50% to 74% and the number of students who obtained 75% and higher. Table 2 presents a comparison of the average marks obtained in the first year, of Higher Certificate in Accountancy graduates and students who

were admitted directly into the Diploma in Accountancy programme.

Table 2: Average marks – Financial Accounting 1 and Cost and Management Accounting 1

Period	Financial Accounting 1		Cost and Management Accounting 1	
	Higher Certificate in Accountancy Graduates	Direct admissions into Diploma in Accountancy	Higher Certificate in Accountancy Graduates	Direct admissions into Diploma in Accountancy
Year 1	69%	64%	72%	60%
Year 2	66%	62%	61%	59%
Year 3	65%	63%	68%	62%
Year 4	68%	61%	78%	70%
Year 5	64%	65%	75%	69%

Table 2 reveals that the average marks of Higher Certificate in Accountancy graduates, obtained in the primary accountancy modules in the first year, are higher than that of students who were admitted directly into the Diploma in Accountancy programme.

Table 3 presents a comparison of the final marks obtained for Financial Accounting 1 in the first year, between Higher Certificate in Accountancy graduates and students who were admitted directly into the Diploma in Accountancy programme in terms of:

- Pass with distinction (75% - 100%)
- Pass (50% - 74%)

Table 3: Final marks - Pass and Pass with Distinction: Financial Accounting 1

Period	Performance Band	Financial Accounting 1	
		Higher Certificate in Accountancy Graduates	Direct admissions into Diploma in Accountancy
Year 1	Pass with distinction (75% - 100%)	35%	5%
	Pass (50% - 74%)	59%	51%
Year 2	Pass with distinction (75% - 100%)	12%	8%
	Pass (50% - 74%)	62%	54%
Year 3	Pass with distinction (75% - 100%)	13%	7%
	Pass (50% - 74%)	60%	43%
Year 4	Pass with distinction (75% - 100%)	25%	1%
	Pass (50% - 74%)	46%	48%
Year 5	Pass with distinction (75% - 100%)	10%	8%
	Pass (50% - 74%)	71%	48%

The comparison in Table 3 indicates, in each year under review, that the number of Higher Certificate in Accountancy graduates who have passed Financial Accounting 1 with distinction in the first year, exceeded the number of students who were admitted directly into the programme. Furthermore, the number of Higher Certificate in Accountancy graduates who have passed with a final mark of 50% to 74%, exceeded the number of students who were admitted directly into the programme, with the exception of Year 4.

Table 4 presents a comparison of the final marks obtained for Cost and Management Accounting 1 in the first year, between Higher Certificate in Accountancy graduates and students who were admitted directly into the Diploma in Accountancy programme in terms of:

- Pass with distinction (75% - 100%)
- Pass (50% - 74%)

Table 4: Final marks - Pass and Pass with Distinction: Cost and Management Accounting 1

Period	Performance Band	Cost and Management Accounting 1	
		Higher Certificate in Accountancy Graduates	Direct admissions into Diploma in Accountancy
Year 1	Pass with distinction (75% - 100%)	50%	8%
	Pass (50% - 74%)	50%	58%
Year 2	Pass with distinction (75% - 100%)	6%	6%
	Pass (50% - 74%)	91%	60%
Year 3	Pass with distinction (75% - 100%)	35%	14%
	Pass (50% - 74%)	60%	62%
Year 4	Pass with distinction (75% - 100%)	67%	34%
	Pass (50% - 74%)	31%	45%
Year 5	Pass with distinction (75% - 100%)	56%	22%
	Pass (50% - 74%)	42%	58%

Table 4 indicates, in each year under review, that the number of Higher Certificate in Accountancy graduates who have passed Cost and Management Accounting 1 with distinction in the first year, exceeded the number of students who were admitted directly into the programme, with the exception of Year 2. Contrary to Financial Accounting 1, the number of students who were admitted directly into the programme who passed Cost and Management Accounting 1 with a final mark of 50% to 74%, exceeded the number of Higher Certificate in Accountancy graduates, with the exception of Year 2.

OVERALL FINDINGS

The foundation instilled during the offering of the primary accountancy modules during the Higher Certificate in Accountancy programme is evident by the data provided and supports the need for foundation programmes in higher education. The study highlights the importance of well-structured and meaningful foundational programmes to provide alternative pathways to higher education and to ensure access for success.

The results of the current study indicate that the Higher Certificate in Accountancy graduates achieved higher pass rates as well as higher average marks in the primary accountancy modules, for each year under review in the study, than students who were admitted directly into the Diploma in Accountancy programme. Furthermore, the Higher Certificate in Accountancy graduates achieved higher final marks in respect of the primary modules, compared to students who were admitted directly into the Diploma in Accountancy programme. Therefore, based on the results the Higher Certificate in Accountancy programme has provided graduates with the adequate foundation to be

successful in the primary accountancy modules offered on the Diploma in Accountancy programme compared to first-time registered students.

VALIDITY AND RELIABILITY

Validity in a research study refers to its accuracy and describes how useful and reliable the research conducted is (Quinlan, Babin, Carr, Griffin & Zikmund, 2015). The data collected in the study was directly obtained from the university's MIS and represents the final results of first year accounting students who were registered for the Financial Accounting 1 and Cost and Management Accounting 1 modules in Year 1, Year 2, Year 3, Year 4, and Year 5. The marks captured were verified by university staff and are internally moderated, furthermore students are afforded the opportunity of viewing or requesting the remarking of assessments. Research reliability is the extent to which the outcome of the data collection and analysis methods produce consistent results (Saunders & Lewis, 2018). Data acquired for each of the five years was similarly collected from the university's MIS and analysed, thus consistent results were obtained ensuring the reliability of research findings and conclusions.

RELEVANCE AND CONTRIBUTION OF THE STUDY

"Post-school institutions should accept students who are academically less prepared and provide them with targeted support" (NPC, 2012: 316). Universal access to higher education studies is closely connected to the right to education – deemed a human right for all South Africans. In line with social inclusion, the Higher Certificate in Accountancy programme supports these objectives by widening access to higher education for

students who may not have otherwise met the minimum requirements to study further. Moreover, the programme provides these students with the necessary support, skills and foundational knowledge required by first-time entering school leavers with the aim of being successful when embarking upon the Diploma in Accountancy programme. The study is useful in highlighting the importance of well-structured and meaningful foundational programmes. Furthermore, the foundation instilled during the offering of the primary accountancy modules is evident by the data provided and supports the need for such programmes.

LIMITATIONS, FUTURE RESEARCH AND CONCLUSION

The study only considered students who had successfully completed the Higher Certificate in Accountancy programme and who had continued their higher education studies at the Nelson Mandela University. A further limitation is that the study only obtained secondary data pertaining to the primary accountancy modules namely Financial Accounting 1 and Cost and Management Accounting 1 and did not consider any other first year module.

Future research can be undertaken by comparing the performance of Higher Certificate in Accountancy graduates to those students who were admitted directly into the Diploma in Accountancy programme in the non-primary accountancy modules such as Business Communication and Computing Concepts modules. Future research could compare the performance of second- and third-year Diploma in Accountancy students who were admitted directly into the programme to Higher Certificate in Accountancy graduates in the primary accountancy modules. Another area for research could focus on the number of Higher Certificate in Accountancy graduates who graduate from the Diploma in Accountancy programme in regulation time versus students who were admitted directly into the programme.

The study was successful in achieving the objective of the study which was to determine the performance of Higher Certificate in Accountancy graduates in the primary accountancy modules, namely Financial Accounting 1 and Cost and Management Accounting 1, and compare these results with students' performance, who were admitted onto the Diploma in

Accountancy programme directly from high school. Based on the findings of the research study, it can be determined that the Higher Certificate in Accountancy programme provides a pathway for success into higher education specifically in the identified primary accountancy modules. Furthermore, this study contributes by identifying the effectiveness of the Higher Certificate in Accountancy programme in respect of increasing the in-take of first year students onto the Diploma in Accountancy programme, increased pass rates and overall performance of Higher Certificate graduates in the primary accountancy modules offered on the Diploma in Accountancy programme.

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GAUTENG NORTH, GAUTENG CENTRAL & CENTRAL REGIONAL CONFERENCE

THEME: Taking Accounting into the FUTURE!

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Student Experiences of the Integration of Ethics and Social Competencies in an Accounting Curriculum

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Purpose: The paper considers the integration of the 'ethics and social responsibility' aspects of the foundational competencies of Lawson *et al.*'s (2014) framework within an undergraduate accounting module which was introduced in a South African university.

Design/methodology/approach: Qualitative information was gathered through semi-structured focus group interviews with students who completed the module. All the focus group discussions were recorded, with the permission of participants, and were then independently transcribed and analysed using the ATLAS.ti software.

Findings: The study provides evidence of students' generally positive experiences of the module, including the integration of worldviews and the development of ethical and critical thinking. However, there needs to be a reconsideration of the balance in content with a more theory modest approach. Students advocated the module on the grounds of the strengthening of workplace skills within accountancy and the opening of students' minds to other people's worldviews. Students appreciated that the module is run by accounting lecturers but there is a need to reconsider the number of assessments and consider a broader variety of assessments.

Originality/contribution: The paper offers suggestions to expand Lawson *et al.*'s (2014) accounting education framework to incorporate moral and world ideologies as a foundational competency.

Keywords: Accounting education; Integration; Ethics; World ideologies; Worldviews; Cognitive learning

INTRODUCTION

Accounting curricula tend to focus on technical skills at the expense of other competencies such as ethical and social skills (Murphy & O'Connell, 2017; Sikka *et al.*, 2007). Lawson *et al.* (2014) recognise the need for research work to assist in providing detailed guidance on how to develop integration of the accounting syllabus in the specifics of apposite competencies and their being inculcated into learning objectives, curriculum design and assessment mechanisms. This paper will consider the integration of the ethics and social responsibility aspects of the foundational competencies within an accounting curriculum as part of the incremental journey towards integration. This will be conducted through the lens of a first-year undergraduate module on an accounting programme which was introduced in a South African university, to answer the research question as to what student experiences were regarding curriculum, teaching and assessment within this module. The module seeks to provide a bedrock for the students succeeding in their professional accounting studies in the areas of ethics and societal worldviews.

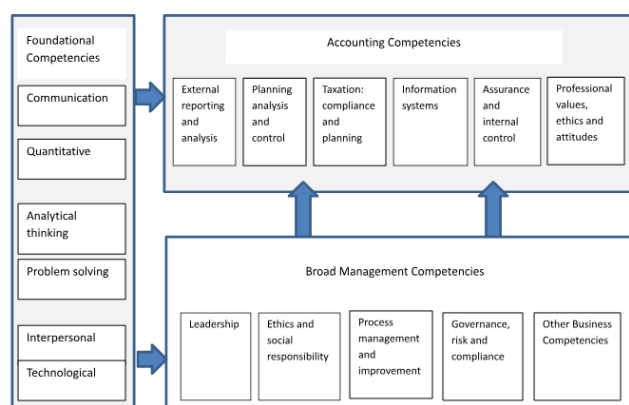
Accounting education must ensure that accounting is not taught within a silo but linked to the contextualised

realities that students will face. There has been criticism levied against educators regarding a fixation with accounting centric knowledge-based learning which neglects the integration of broader business competencies (Lawson *et al.*, 2014; Siegel *et al.*, 2010). This could affect future employability leading employers to seek graduates from non-accounting degrees where there is a perceived superior development of non-technical skills (Douglas & Gammie, 2019). Failure to integrate accounting education may assist in rendering the accounting profession insular and lacking relevance (Demski, 2007). An accounting graduate with a narrow technical accounting knowledge is also likely to be lacking in the nous to contextualise their technical knowledge into the complexities of real life. This integration problem has been recognised by numerous global professional accounting bodies (e.g., CIMA, 2019; CPA Canada, 2022; ICAEW, 2024; IFAC, 2004).

Lawson *et al.* (2014) recommend that accounting competencies be taught using an integrated educational pedagogic framework (Figure 1) that gives cognisance of foundational business skills required by all business school graduates (foundational competencies) and broader management skills required of a professional (broad management

competencies). There is a clear focus on the accounting profession and accounting competencies bolstered by inter-linking business-related competencies with a progression between the levels of the competencies. For example, the competency focused on planning, analysis, and control should first ensure students have the technical accounting ability to prepare budgets but then linked to technological skills in terms of Excel modelling and then linked at a later stage to ethical, governance and risk management aspects. The dimensions are expansive to gain traction to the real world, for example environmental stewardship and global citizenship, and dynamic to the ever-changing environment.

Figure 1. Competency integration: A framework for accounting education



(Source: Lawson *et al.*, 2014)

Whilst ethics is included within Lawson *et al.*'s (2014) framework, albeit at the broader management level, the module under review considers it at a foundational level. However, the module also veers from the traditional approach to ethics modules by providing an underpinning to the curriculum by considering the societal worldviews within which the accounting discipline operates. One intention is that this coverage will provide societal and ethical frameworks upon which academics can subsequently draw on in their specialised subject areas. By drawing on qualitative information collected through focus group interviews, the research provides evidence of the students' experiences regarding curriculum, teaching and assessment within the module and suggested changes for going forward.

Any approach towards integration of the accounting curriculum is likely to be problematical requiring a mind shift from traditional discipline-based content

and requiring a systematic review of the programmes with accounting programme leaders as key change agents in the curricular-change process with an incremental change approach seen as the most feasible (Lawson *et al.*, 2017). This will most likely require a paradigm shift in pedagogy and a broadening of the integration concept into the syllabus. There would need to be in place accounting academic staff who desire such change, and also professionally oriented non-accounting faculty or practitioners to provide requisite integration.

ETHICS WITHIN ACCOUNTING EDUCATION

Calls for greater ethics education in the accounting curriculum (e.g., IFAC, 2006) have been exacerbated by accounting scandals such as WorldCom and Enron highlighting the need for integrity and professional scepticism to the profession (Agrawal, 2021). Criticism levelled at educators would suggest students are insufficiently prepared to face the ethical issues relating to the profession (e.g., Hummel *et al.*, 2018). Critics of accounting education have argued that accounting syllabi have been swamped by regulatory pronouncements at the expense of critical and reflective skills (e.g., Howieson, 2003). The dominance of the technical aspects of accounting has led to the neglect of the social, critical, public interest and ethical dimensions required for public service by the contemporary accountant (Murphy & O'Connell, 2017; Sikka *et al.*, 2007).

The objective of ethics education should be to provide a framework and environment within which ethical issues may be identified, analysed, and resolved to the point of action (Gandz & Hayes, 1988). Ethics education in the accounting curriculum seeks to enhance ethical reasoning and equip accountants to address the ethical dilemmas they may experience (e.g., Dellaportas, 2006; O'Leary, 2009). Ethics in accounting is often taught within the auditing discipline and also regarding adherence to regulation but this is restrictive to the other areas across the profession's disciplines (e.g., Blanthorne *et al.*, 2007). Ethical behaviour resonates with management accounting practice including the excessive focus on performance targets prompting dysfunctional behaviour such as excessive risk taking (Ordóñez *et al.*, 2009) and international transfer pricing enabling the large-scale avoidance of taxes by multinationals (Sikka *et al.*, 2007). Managerial actions

are not 'morally neutral', although managers see themselves as 'amoral technicians' (Beabout, 2013).

Critical thinking

The coverage of ethics within the accounting syllabus has raised debate over whether it should be taught by codes of conduct or by the development of moral reasoning (Blanthorne *et al.*, 2007). Ponemon and Gabhart (1994) argue that accountants need to learn to make ethical choices based on moral principles and the rules and expectations of their profession and society. Various stakeholders also argue that scepticism should be exercised by all professional accountants and not just by those who perform audit and assurance engagements (Bowman & Lemon, 2018). Professional scepticism is an integral part of a professional accountant's skill set and the development of underlying skills such as a questioning mindset, curiosity, awareness of bias, ethical predisposition, self-confidence, and a tendency to doubt and critical thinking is considered fundamental to the training of accountants (Hurt, 2010; IESBA, 2023). The authors would argue that there is a strong link between critical thinking and ethical reasoning and would advocate the application of the former to ethics education.

The engendering of professional scepticism includes the need for a broad business acumen to aid in understanding numerous environmental factors, as well as human behaviour patterns. In discussion on embedding generic skills on accounting programmes, attention has also been given to wider societal considerations including business awareness and knowledge (Webb & Chafer, 2016). The module under consideration in this paper broadens this perspective undergirding the ethical elements of the curriculum with coverage of worldviews, ideologies, and value systems. Sikka *et al.* (2007) find that most of the textbooks used in professional accountants' training focus on the technical aspects of the profession with little consideration of context, conflicts of interest, ethics, social impact, public interest, and outside stakeholders.

Some in the profession frequently appeal to notions of 'serving the public interest'. Education schemes often provide no explanation of what 'serving the public interest' means or any evidence showing whether accountancy practices can serve the needs of diverse stakeholders' (Sikka, 2003). Amernic and Craig (2004)

contend that accounting educators should have students appreciate the idiosyncratic, political, rhetorical, ideological, and non-objective nature of accounting and see accounting as something other than a tangible and technical means of accessing a 'measurable world'. Boyce (2004) also asks for a wider consideration of accounting as it affects social, environmental, and political dimensions whilst Dillard (2002) suggests that without a wider perspective the accounting profession can inhibit corporate social responsibility and be accused of ignoring the social reality of the accounting profession (Dellaportas, 2015).

Teaching of ethics

Literature debates whether ethics should be integrated throughout the curriculum (e.g., Mintz, 1990) or be a stand-alone course providing in-depth study (Gray *et al.*, 1994; Jennings, 2004) or a combination of the two approaches. There are concerns that having ethics integrated within the accounting discipline without a body of ethics theory or knowledge of ethics leaves the engagement at a superficial level (Blanthorne *et al.*, 2007; Kidwell *et al.*, 2013). However, ethics taught by ethicists is perceived to provide a philosophical perspective which restricts discussion of ethical issues to a philosophical level rather than a practical and professional level (Luoma, 1989). Some have advocated theory-modest rather than theory-free inclusion in the curriculum (e.g., Bowden & Smythe, 2008).

A discrete course on ethics not linked to accounting may weaken the relevance of the topic to accounting students when the materials used are overly theoretic and signals that ethics is not important and of little relevance to the subject area (Piper *et al.*, 1993). An integrated approach also allows educators to link ethics to subject specialisms (Madison & Schmidt, 2006). Developing ethical reasoning skills requires a different teaching style than is normally applied to other modules within accounting courses (Jamil *et al.*, 2024) and the lack of appropriately qualified or experienced staff has been cited as a major barrier to teaching ethics (e.g., Langenderfer & Rockness, 1989).

Over the years resources, frameworks, teaching approaches, cases, and syllabi to develop ethics within accounting programmes have emerged (e.g., Dellaportas, 2006). However, in mainstream

accounting textbooks ethics coverage is minimal, there is an absence of ethics-related case studies, and when ethics is covered, it is focused predominantly on the code of professional ethics (e.g., Tweedie *et al.*, 2013). Textbooks typically give priority to shareholder interests with little recognition of institutions, history, or social contexts (Puxty *et al.*, 1994).

Assessment of ethics

The area of assessment of ethics, in the authors' opinion, lacks research focus and yet should be intrinsic to the ethics education. Dean *et al.* (2007) note that the traditional approaches to teaching ethics do not readily lend themselves to assessment opportunities that may be documented. Creative means of teaching and assessing are required to serve a dual purpose of developing students as well as providing documentation to aid assessment. The clamour for greater access to case studies, videos and online resources for teaching should also seek complementary assessment materials which have been creatively constructed to assess the learning outcomes appropriately, thus creating assessment-friendly pedagogies allowing appropriate learning outcomes to be taught and assessed (Dean *et al.*, 2007).

Researchers have debated whether to use context-specific dilemmas or broader life issues when assessing ethical reasoning (Dellaportas *et al.*, 2006). However, responses to ethics questions relating to broad-life issues may not accurately portray responses to ethical dilemmas in a business environment. Dellaportas *et al.* (2006) noted that students used higher-level moral reasoning in social dilemmas than in ethical dilemmas in business scenarios; thus, Dzurainin *et al.* (2013) conclude that it is important to utilise context-specific situations to evaluate potential ethical responses in a work environment.

Deciding how to measure responses poses an additional problem. Some sophisticated systems can be constructed where respondents use a Likert type scale to respond to ethical assertions with the numerical scoring being calibrated to Kohlberg's levels of moral reasoning (Kohlberg, 1971). However, this type of guided response may not capture independent thinking and understanding of the ethical issues. Other assessments utilise open-ended responses to capture

thought processes, understanding, and independent thinking.

THEORETICAL FRAMEWORK

In accounting education research there is limited reference to the learning theories developed within cognitive sciences where the emphasis is on students' mental processing such as problem solving, concept formation and information processing (Snelbecker, 1983) which allows for consideration of procedures for directing students' processing and interaction with their learning environment (Merrill *et al.*, 1981). This paper aims to contribute to literature on cognitive learning theories within accounting. Cognitive learning theory recognises that learning is equated with discrete changes between states of knowledge such as how information is received, organised, stored, and retrieved by the mind with the learner viewed as a very active participant in the learning process.

Cognitive development literature (Hoare, 2006) also suggests that thought processes develop in hierarchical levels, with each level laying the foundation for the next-higher level. Within the learning process the learner is seen to take prior knowledge to establish boundaries for identifying similarities and differences regarding new information or situations. When a learner understands how to apply knowledge in differing contexts, then knowledge transfer has occurred. Cognitive theories are usually considered more appropriate for explaining complex forms of learning such as problem-solving (Schunk, 1991) and critical thinking.

The philosophical assumptions underlying cognitive theories are primarily objectivistic in that the world is real and external to the learner. However, several contemporary cognitive theorists question the approach of mapping the structure of the world onto the learner and prefer a constructivist approach with the individual creating meaning from their own experiences as opposed to acquiring it (Jonassen, 1991). Constructivists also argue that behaviour is situationally determined (Jonassen, 1991) with interpretations of a given context being based on previous interactions (Clancey, 1986). The goal of instruction is not to ensure that individuals know particular facts but rather that they elaborate on and interpret information. Jonassen (1991) argues that introductory knowledge acquisition is better

supported by more objectivistic approaches (behavioural and/or cognitive) but suggests a transition to constructivist approaches as learners acquire more knowledge which provides them with the conceptual power needed to deal with complex and ill-structured problems. Thus, the successful implementation of the integration framework will require attention to sequencing of material over a four-year (or longer) period and might adopt such an approach including for example the sequencing suggested by Bloom's taxonomy (Bloom, 1956).

RESEARCH METHODOLOGY

In line with the research objective to consider student experiences of the integration of ethics and social competencies into an accounting curriculum, this paper will focus on (1) relevance to the accounting discipline; (2) critical thinking; (3) teaching; and (4) assessment. The study employed an inductive, qualitative research design as the study aimed to offer rich insight into the nuances of students' experiences with the newly introduced 'worldviews and ethics for accountants' module at a South African university. After ethics approval was obtained from the university, semi-structured focus group interviews were conducted with students who completed the module. Informed consent letters were signed by each participant. The interviews were recorded, with the permission of all participants, and were then independently transcribed.

According to Davies (2007), focus groups should ideally consist of six to eight participants. Four groups of eight participants each were randomly selected from the list of approximately 230 registered students for the module. According to De Vos *et al.* (2011) and Davies (2007), qualitative research ends when saturation is achieved, i.e., until the themes emerging from the research start to repeat often, which was achieved after the four focus group discussions were held and confirmed through the coding process. The interviews were facilitated by an independent interviewer not involved with the module. The interviewer guided the conversation through asking a selection of open-ended, prompting questions, each designed to aid in answering the research question (refer to Table 1).

Table 1. Interview guide for focus group interviewer

1	Did you like this module, and why (or why not)?
2	How relevant was the module for your future career as an accountant?
3	Which topic(s) in the module are the most important? And the least important? Why?
4	How effective did the university teach the content of the module?
5	What did you think about the various report-writing and other assignments?
6	How effective were the assessments in the module to test the outcomes?
7	What would you recommend should change regarding the module?
8	Any other thoughts or suggestions?
9	Do you believe that the module increased your ability to think critically? If so, how?

The ATLAS.ti software package (version 22) was used to analyse, identify and organise themes from the interview transcripts by employing an *a priori* coding strategy with reference to the interview guide. Due to the nuanced content of many of the quotations, some of the quotations were assigned to more than one code. Validity and reliability of the qualitative data were ensured through review of the coding by a second researcher. The codes and number of quotations are indicated in Table 2 below:

Table 2. Codes used in the study

	Code	Number of quotations
1	Positive value	129
2	Assessment	81
3	Curriculum	75
4	Required changes	55
5	Teaching	39
6	Groupwork	38
7	Professional relevance	37
8	Assignments	32
9	Liked	22
10	Unimportant topics	22
11	Critical thinking	21
12	Disliked	20
13	Important topics	20
14	Community engagement	18
15	Presentations	14
16	Unnecessary	13
17	Repetition in course	8

RESULTS AND ANALYSIS

The overall feeling from the focus groups was that students' experience of the module was more positive than negative. The word 'good' was mentioned a total of 94 times compared to the word 'bad' which was mentioned 28 times. Regardless of differing levels of enjoyment, most participants agreed that the module was valuable. A total of 129 quotations were assigned to the 'positive value' code, which implied that the module, or specific aspects of the module, had positive value to the students. When compared to codes such as 'disliked' (20 quotations) and 'unnecessary' (13 quotations) (see Table 2), the module was generally seen in a more positive light.

Relevance to the accounting discipline

The module was developed in line with the competency framework of the relevant South African professional body, with the foundational principle being 'responsible leadership'. The module is inherently diverse (e.g., addresses various belief systems and issues around culture and gender). Justice is a core concept in the module and three theories on distributive justice are covered with a wide expanse of related topics addressed e.g., human dignity, freedom, equality, social responsibility, respect, integrity, accountability, ethics of care, inclusivity, and social cohesion. The module is also suited to the African context and addresses African worldviews and perspectives such as 'Ubuntu' and the ancestors, as well as various contemporary critical issues e.g., the high prevalence of HIV, inequality, legacies of Apartheid and human rights challenges such as discrimination, poverty, environmental challenges, citizenship, and corruption. Class debates bring out the viewpoints from different cultures.

The topics mentioned above are seen as professionally relevant for the inherently diverse South African business environment in which the professional accountant will be required to operate and demonstrate responsible leadership and an ethic of care. In addition, the Code of Professional Conduct of the relevant professional body, based on the International Federation of Accountants' (IFAC) code, is covered in the module. The module's study units and their outcomes are included in Table 3.

Table 3. Module study units and learning outcomes

Unit	Title	Learning outcomes: students should be able to....
Study Unit 1:	Introduction to worldviews, ideologies, value systems and ethics	Differentiate between the concepts 'worldview' and 'ideology' and give examples of each to illustrate your understanding.
		Compare the characteristics, nature, and functions of a relevant selection of worldviews and ideologies.
		Explain and illustrate how a variety of these views and ideologies manifest in a contemporary society and the effect that they have on the community and on business
		Define and explain key concepts and levels of ethics, and distinguish between ethics, morals, values, and legality.
		Demonstrate an understanding of value systems in South Africa and how different cultures and their histories shape their worldviews, ethical values, and patterns of behaviour.
		Understand the philosophical foundations of ethics, including virtue theory, deontological ethics, and utilitarian ethics.
Study Unit 2:	Economic worldviews, ideologies, and macro-ethics	Identify and explain a selection of economic worldviews and ideologies with emphasis on capitalism
		Understand how macro-ethics affects business and professions.
		Apply a selection of economic worldviews and ideologies on different contemporary issues in an accountancy environment.
Study Unit 3:	Critical issues and contemporary phenomena in the accountancy environment	Analyse and evaluate critical issues that could affect the environment in which an accountant operates, such as human rights, inequality, HIV/Aids, overregulation, abuse of power, corruption, fraud, earnings management, and tax evasion.
		Express a personal worldview and use it as a point of departure for deliberating on workable solutions for contentious issues in the accountancy environment, business, and society at large.
Study Unit 4	Business ethics and the modern corporation	Demonstrate an understanding of and debate the prominence of the moral status and obligations of corporate entities.
		Provide arguments for and against corporate social responsibility.
Study Unit 5	Ethical decision-making and resolving ethical dilemmas	Distinguish between personal and social ethical dilemmas.
		Discern ethical issues and possible options, determine the impact of decisions on stakeholders and make ethically sound decisions.
		Generate creative solutions for moral dilemmas by applying a suitable strategy for resolving ethical problems.
Study Unit 6	Introduction to the code of professional conduct for chartered accountants	Broadly understand what a profession is and what the role of professional bodies is.
		Explain the role of professional codes of conduct in the accountancy profession.
		Identify and demonstrate an understanding of the fundamental principles of SAICA's code of professional conduct.
		Advise on solutions to dealing with accounting related ethical dilemmas by applying the conceptual framework contained in Part 1 and 2 of SAICA's Code of Professional Conduct.

A general theme emerging from all focus group interviews, was that the module was of relevance to

students' future careers as professional accountants. A total of 37 positive quotations were specifically allocated to the 'career relevance' code.

Some participants confirmed that the module helped raise awareness of ethics within the accountancy profession:

it has given me a view into what is expected of us in the real world. We need to be people that are trustworthy and we need to act in a professional manner... and I believe that this module has helped me identify with more accuracy on what is right and wrong.

It made it easier to be able to identify these [ethical] issues quicker and you will be able to see early on something does not look okay here.

Yes, I feel the subject teaches you what the profession thinks is right and wrong. It sets a standard for us because as they said, not all of us see the same things as right and wrong.

Interestingly with open debate some participants felt that the module will allow them to be more prepared for the professional workplace as regards understanding and tolerance of others:

But it made me feel that in the workplace I will know how to handle people from other cultures or understand them better.

Yes, I feel it is important, especially when we get the workplace one day I think because we will work in groups and audit in teams, you have to be able to work with different people from different backgrounds so that we know how to behave when you don't agree with someone's opinion... so that you don't come off as unprofessional or so and still take their view and opinion into consideration.

An unexpected student reaction was the development of new soft skills which would assist in the workplace from groupwork, report writing, and presentations as illustrated from the following quotes:

The fact that we had to write reports in a group. My favourite part of this whole six months of the subject was what we

actually had to stand there in front and present. Yes, it was not fun to have to present but looking back it taught us skills that we are actually going to use one day.

It does teach you skills like working with other people ... because that is what you will have to do in practice as well. You will be with your team for many hours and you will still have to persevere and work together.

When students were asked if there should be less on worldviews and more of professional ethics one stated:

They could have summarised it more and according to me expanded more on the ethics in our profession.

The module has sought to promote ethical thinking to students at the very start of their academic studies and career in accounting and for students to recognise that accounting is not 'morally neutral', and we are not 'amoral technicians' (Beabout, 2013). The university wish students at the outset to understand the ethical and societal backdrop within which accounting sits. The aim is to set accounting as a social science at the outset and face up to the responsibilities of a rounded education (e.g., Hummel *et al.*, 2018). Whilst there is still a dominance of the technical aspects within the programme's accounting curriculum the module answers the criticism of the near exclusion of not only the ethical dimensions of accounting but also the social, critical, and public interest dimensions required for public service by the contemporary accountant (Murphy & O'Connell, 2017; Sikka *et al.*, 2007). The aim is to enhance ethical reasoning and equip accounting students to recognise and address the ethical dilemmas experienced within accounting related subjects. The aim was also to build on this module's foundation in future modules in a hierarchical structure as with cognitive development literature (Hoare, 2006) and within more specific contexts such as audit but also to recognise its impact on other accounting areas such as management accounting and taxation. The student feedback concurs with the importance of awareness of ethical dilemmas in their chosen profession but also as a by-product the module is preparing them for the workplace.

Development of critical thinking

The module contains various group and individual writing and presentation assignments as well as class debates. These assignments challenge students to think critically and 'out of the box'. Assignments include a broad range of country-relevant topics such as land appropriation without compensation, tax evasion, corporate social responsibility, the role of social media, ethical failures in the accounting profession (e.g., the Steinhoff scandal), and how accountants will need to adapt to survive in a world of disruptive technologies. Some of these assignments take the form of open-ended, essay-type reports where students will not find the answer in any textbook, law, or accounting standard – they must think critically. Students are required to conduct research using credible sources and are also required to express their own views and arguments on these matters, which is quite different to the approach followed in other modules in this programme.

Some of the research participants specifically mentioned that the module helped develop critical thinking. A total of 21 quotations were allocated to critical thinking enhancement, some of which are:

Critical thinking – you can also apply it to other modules. It is a lifetime thing, you can apply it wherever. So it really did help because you have to think outside of the box.

I think because you were forced to sit and think about it you realise that you are going to be in practice where you need to give reasons for things.

Yes I also think that it increased critical thinking because accountants often just see black and white....so it challenged you to think and actually have an opinion.

Critical thinking through the promotion of independent thinking and reasoned judgement making, has been central to this module. The module sought to teach the ethics elements of the curriculum by the development of moral reasoning and principles based on the expectations of the accounting profession and society (Ponemon & Gabhart, 1994) although reference is also made to professional codes of conduct. The module introduces the concept of professional scepticism within accounting but differs from many in that, in

engendering professional scepticism, attention has also been given to wider societal considerations including business awareness and knowledge (Webb & Chafer, 2016) but also worldviews, ideologies and value systems. This seeks to counter Sikka *et al.* (2007) who assert that professional accountants' gives little critical consideration to context, conflicts of interest, ethics, social impact, public interest and outside stakeholders and the wider reflections about the social consequences of accounting practice. There is a genuine attempt therefore of recognising the social reality of the accounting profession (Dellaportas, 2015) and to introduce corporate citizenship.

Teaching

The module has a value of 12 credits (120 notional learning hours) and runs over one semester. It is delivered through two hours of contact with students each week, supplemented with self-directed learning activities utilising the university's online learning management system. Due to large class sizes, the contact sessions take the form of traditional classroom style sessions, although sessions are interactive through using methods such as regular class debates, discussion of mini case studies, student presentations and smaller group activities with feedback to the larger class.

The teaching strategy in this module is quite different to the teaching approach in other modules in the programme. The module is not technically focused but rather takes students through a journey of self-discovery (in line with a constructivist approach) about their own and others' worldviews, ethical sensitivity and thought processes. Examples of such thought processes are ethical theories such as utilitarianism, egalitarianism, libertarianism, deontology, and virtue ethics, as well as ethical decision-making strategies. The programme management team perceives the module to be successful in terms of students actively taking part in the learning activities. The module is owned and managed in-house by the accounting department and even though it is philosophically grounded it is presented by accountants who aim to make philosophy and ethics practical and relevant to the future accountants' careers.

A total of 39 quotations addressed students' experience of how the module was taught. Comments

were generally positive, although some were negative. A selection of positive quotations is:

the lecturers continuously made a point that if we say yes or no then they asked why. They really ask you to think deeper and think critically about why and why it is relevant in our profession.

I think because our lecturers are professional accountants and they have experienced these things, learning from them is interesting because it's someone that has an interest in and a passion for this theme of ethics in our profession and showing us just how important it actually is.

the university has rainbow classes we have different people and our lecturers did it in such a way that it did not necessarily offend anyone.

Other students, especially from one group interviewed, held an opposing view. Some students believed it could have been more interactive, others that there was too much information, and some felt it was still too theoretical. For example:

I wasn't excited to go and sit there to hear what did Milton Friedman say, or whoever because it was just that it wasn't interactive enough, it wasn't exciting. It wasn't interesting and therefore we didn't have the motivation to study for it after the fact also.

I think it's a really tough module to present because people aren't interested from the start. It is a lot of information. So most in the class felt like it was an information overload.

I just wanted to say I think it [the subject] is relevant but maybe just in a more practical way rather than studying it theoretically.

The lecturers of the module had to upskill and reinvent themselves. They consulted an expert in the faculty that had extensive experience in incorporating such principles in economic and management sciences, in designing the module and their teaching approach. In terms of study materials, the lecturers relied on materials that were already available in the faculty for

the 'understanding the world' modules, as well as a South African textbook covering ethics for accountants and auditors. This book contains relevant theory and numerous ethics case studies. Study materials were supplemented with academic articles and accounting or business ethics case studies that were publicly available.

This first-year module is intended to be foundational to future modules where some of the themes can be built on. The stand-alone course provides a concentrated study on the subject matter as advocated by scholars such as Gray *et al.* (1994) and Jennings (2004). The use of case studies and debate following the philosophical underpinning seems to have been found helpful by most students. There is a recognition that developing ethical reasoning skills requires a different teaching style than is normally applied to other modules within accounting courses (Jamil *et al.*, 2024) and a theory-modest approach is best for the curriculum and has been adopted (Bowden & Smythe, 2008). The authors contend that the tutoring on the subject by accounting staff with an appropriate background in the subject matter has been superior to that of an ethics specialist with no knowledge of the accounting profession. Consideration should be given to the balance between theory and practice and to information overload in terms of the breadth of topic area in the light of student comments.

Assessment

Formal formative assessments in the module include three written class tests and four assignments which are used to build up a 'participation' mark during the semester to gain entry to the summative examination. Most case studies used in the module had a business context, but some assessments included 'personal ethical dilemmas'. Summative assessment consists of both a large, summative group assignment and a written examination. The following grids summarise the different assessments that were used in the module and their weightings:

Table 4.1. Formative assessment ('participation mark' required to gain entry to the summative assessment at the end of the semester)

Assessments	Approach	Weight
3 x written sit-down tests	Theory with application	85%
Assignment 1: Online individual quiz	Theory	15%
Assignment 2: Individual report	Practical research essay	
Assignment 3: Group report	Practical research essay	
Assignment 4: Group project	Practical: analysis of an integrated report, community outreach and class presentation	

Table 4.2. Summative assessment ('examination mark')

Assessments	Approach	Weight
Written sit-down examination	Theory with application	60%
Summative group assignment	Practical research paper	40%

The final module mark is calculated using an equal weighting for the participation mark and examination mark.

It is especially the five assignments (four formative and one summative) that are designed to widen students' perspectives and amplify their critical thinking ability. Some assignments in the module are designed to develop and assess certain workplace skills, including report-writing, life-long learning, judgement, teamwork, presentation, and communication. The programme management team perceives the module to be successful in terms of students actively completing the assignments even though they are low stake.

Students were generally complementary of the types of assessments used in the module. Several participants mentioned the variety of assessments:

It [the assessments] catered for everyone, opportunity to write tests, going out to the public, presenting, they had the opportunity to do that.

However, several participants did not enjoy the formal, written tests in the module as they felt unsure how to approach the questions perhaps related to the differential between this and other modules:

The negative of the module is having to answer a test, you don't know if you have

to answer it point for point or just in a way that makes sense, like I did not know what to write.

We don't necessarily hate the tests, it is just maybe the way the questions are asked. I am not sure if it's the way it was asked or the way it was marked because, you ask for our opinions or views.

One participant suggested that the entire module should be assessed through assignments and not tests:

I feel the whole module should be more based on assignments than theory because theory they test you only on what you studied not what you really think. It is more applying the theory anyway. The assessment should be more formed around group assignments than on tests.

Participants generally praised the nature of the assessments in enhancing certain skills that are not always assessed in other modules. Research and report-writing skills through the various written assignments in the module were in evidence as were teamwork skills, through the various groupwork assignments. The general theme that emerged, was that students found groupwork very valuable for their skills development even though they were initially apprehensive about working with others. The module also required presentation skills with a total of 14 quotations supporting the notion that students found the presentation, that they had to do in one of the projects, useful for developing their skills. Finally, corporate citizenship was introduced to make corporate social responsibility practical, with one of the assignments in the module requiring the student groups to be involved in a community outreach project. This was generally experienced in a positive light by students.

When asked whether the projects and assignments should contribute a bigger weighting to the module mark 11 students responded positively to the suggestion:

All that work that we have done for such a small percentage is just discouraging.

The weighting of the individual work, groupwork and tests I didn't really like because we got more for writing a test compared to individual work or groupwork.

There were six quotations from students who believed the number of assignments should be reduced and 14 quotations from students regarding there being a need to reduce the module's overload with some direct comment about the assessments – for example:

The second semester is such a short semester and we had an online test, individual assignment, test, group assignment and again a test.

Also, six further quotations from students who believed there should be change as to how the module is assessed regarding written formal tests and exams – for example:

I, at first I thought the module was about opinions but it was like any other module regarding assessments where it is knowledge based. You must, must know the five tenants, you must know how to list them, word for word.

I just think we need to find another way of assessment than studying it like a parrot. So to make it more applicable let's say in the class we do it theoretically and then assess it more practically.

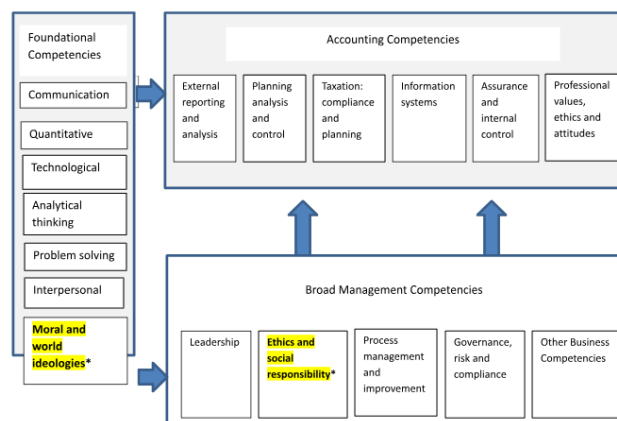
The authors believe that, whilst there is difficulty in transferring debate on ethical dilemmas to assessment opportunities that may be documented, this is not entirely prohibitive. The adoption of assessment-friendly pedagogies was seen as an imperative for the module to provide the requisite integrity (Dean *et al.*, 2007) and test of critical skills. Like Dzurani *et al.* (2013) the authors agree to utilising context-specific situations to evaluate potential ethical responses in a work environment. However, whilst a theory modest approach was adopted to teaching, per the student feedback, there may an imbalance between theory and practice in the assessment strategy.

CONCLUSION

The authors welcomed the integrated approach to providing accounting education. The paper seeks to add to the request for research into the inculcating of such an approach to an accounting programme. This is achieved by the consideration of business ethics but is furthered by the inclusion of aspects of contextualised social worldviews which has not been researched in the accounting curriculum. Regarding Lawson *et al.*'s (2014) framework, the authors believe and

recommend that a foundation topic be added to underpin accounting students' studies as indicated in the diagram below – not only of moral ideologies but also of world ideologies that will impact on their future career development.

Figure 2. Abridged competency integration: a framework for accounting education based on Lawson *et al.* (2014) and expanded by the authors



* Authors' suggested additions to Lawson's framework

In terms of relevance of the subject matter to the accounting profession the authors recognise that this was a new module and that imbalances are to be expected. The introduction of worldviews was new and valid but based on student feedback there needs to be a reconsideration of the balance between theory and practice with a more theory modest approach advocated. In addition, the worldview aspects should be considered regarding how they impact on the accounting profession and within the domain of corporate citizenship. This may allow room for more deep learning and reflection on the remaining relevant coverage and rationalising what might be an overcrowded syllabus. The curriculum lent itself towards a constructivist approach to learning building on prior experience and allowing room for debate, reflection and varied views and conclusions. This approach should be advocated particularly in a discipline where the technical often dominates deeper critical thinking. It was good to see feedback from students advocating the module on the grounds of the strengthening of soft skills which will be useful in the workplace and the opening of students' minds to other people's worldviews.

In terms of teaching, the module was run by accounting staff with a clear emphasis on relevance. This was

appreciated by students as otherwise there would have been the danger of excessive theorisation. There is still some work to do regarding engagement especially of the theoretical elements with a variety of teaching methods being advocated along with a theory modest perspective. The assessments are varied but there is a need to reconsider the number of assessments and their focus. The small tariff given to some assessments was resented by some students and they also expressed a desire for more practical assessments with a move away from the more traditional examination format. It is believed that with an emphasis on fewer assessments and substantive summative weightings this may motivate students towards deeper learning.

The authors would also advocate a deepening of the module's subject areas by inculcating aspects of the module within core modules in later years of the programme. To do this will require careful management including the involvement of key change agents and the approval of senior management and the involvement of the existing teaching staff on this first-year module to share their experience.

Venturing into the domain of moral and world ideologies requires a different pedagogic approach and training of lecturers will be an important consideration to any institution wishing to incorporate this in their accounting curriculum. The authors contend that institutions simply need to start somewhere, and this pedagogic approach will develop and gain momentum as accounting lecturers gain more confidence in applying it and as they learn from their colleagues. Institutions that wish to incorporate moral and world ideologies in their curriculum should also consider implications on resources. This may result in making room in an already overcrowded syllabus for this module and freeing up lecturing capacity and other resources but should be balanced against the benefits to the learner and their future career by investing in this valuable approach.

Further research should include the embedding of the worldviews and ethical studies into competencies at later levels of the accounting curriculum. It will also be valuable to explore other ways to inculcate such competencies in accounting education programmes. Also, studies comparing different institutions within South Africa regarding integration, and research to contrast with accounting education institutions

globally, would be insightful. Finally, studies comparing such approaches to integration with other professional disciplines would be illuminating.

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Ethical Values in Accounting Education: An Exploratory Study on the Alignment of Students' Individual Personal Values Versus Potential Business Values

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Purpose: Values are fundamental beliefs that guide and motivate decision-making. These beliefs, characteristics and behaviours are important in guiding thoughts and actions which may contribute to a person's personal values in the workplace to meet professional responsibilities. The purpose of this study was to examine the alignment between first-year students' personal values and their potential business values, particularly in the context of ethical decision-making.

Design/methodology/approach: An intervention was used to align students' individual and potential business values. The research method was quantitative, employing two questionnaires for accounting students (N=537) and qualitative, in using students' verbatim quotes.

Findings: The main findings of this study indicated that the top individual personal and business values were, respectively, 'Family' and 'Honesty'; a significant change in ranking the same values differently from the personal values to their potential business values. The values that aligned the most for both (individual and business) were 'Disciplined' and 'Ambitious', indicating that students were disciplined and ambitious in their studies, the potential business environment, and the potential future workplace

Originality/contribution: This study provides initial information on the relationships between the personal values and potential business values in ethical decision making.

Keywords: Accounting; business values; ethical; higher education; personal values; South Africa; students; university

INTRODUCTION

Values are at the core of beliefs, attitudes, norms of acceptable behaviour, and decision-making of individuals and groups (Feather, 1988; Feather, 2003; Lan, *et al.*, 2008; Weber, 1993). The likelihood of an individual making unethical decisions is closely linked to their personal values (Arciniega, *et al.*, 2019; Jones, 1991). Professionals bring their own set of values to the workplace and how ethical dilemmas are perceived are influenced by a person's personal value system (Ariail, *et al.*, 2012; Finegan, 1994). The importance of ethics in the workplace is emphasised by recent corporate failures in South Africa (Rossouw, *et al.*, 2000; Rossouw & Styan, 2019). These events highlight the need to integrate ethics into undergraduate studies, particularly in fields like accounting, where trust is paramount (Rossouw, *et al.*, 2000; Rossouw & Styan, 2019; Motau, 2018; Senekal de Wet, 2022; Smit, 2022). The tolerance of individuals for unethical behaviour decreases when exposed to ethics in studies or training, highlighting the importance of incorporating ethics in undergraduate studies (Lopez, *et al.*, 2005; Okougbo, *et al.*, 2021). In recent years, the South African accounting profession has been impacted by corporate scandals such as VBS Bank, Steinhoff and

Tongaat Hulett, causing society to mistrust the integrity of the profession (Motau, 2018; Senekal de Wet, 2022; Smit, 2022).

The purpose of this study was to examine the alignment between first-year students' personal values and their potential business values, particularly in the context of ethical decision-making. The gap exists to identify the alignment between students' personal values and their potential business values while other studies have identified only the most important personal values (Papageorgiou, *et al.*, 2022). This study is unique in the sense that it draws a comparison/alignment between the values that are important to students in their personal lives compared to those required in a business environment. A lecture intervention was used to align students' individual and potential business values. The comparison/alignment also determined whether the individual values in a business environment are influenced when tested in a group setting. A tutorial activity intervention was used to confirm students' potential business values. This comparison/alignment may assist educators by including ethics as part of an undergraduate accounting curriculum. Therefore, students may better understand their personal values and the alignment

thereof with values that are required in a business environment for ethical decision-making.

The following objectives of the study were formulated to address the research questions:

1. To determine the most important individual personal values for the students,
2. To determine the most important potential business values for the students,
3. To establish if students' individual personal values were aligned with the ethical values of the students' individual and group business ethical values, and
4. To determine why students ranked a specific value as their most important personal and potential business value.

The following research questions were developed to address the purpose of this study:

1. What are the most important individual personal values for the students?
2. What are the most important potential business values for the students?
3. Were the students' individual personal values aligned with the ethical values of the students' individual and group business ethical values? and
4. Why did students rank a specific value as their most important personal and potential business value?

The research paper is structured as follows: firstly, the literature review and the theoretical framework, followed by the discussion of the research methodology, and findings, and lastly, the conclusion which includes the value, limitations, and future recommendations of the study.

LITERATURE REVIEW

Ethics is commonly defined as the ability to differentiate between 'right and wrong' and 'good and bad', in human interactions (Nathan, 2015). Adenitan and Doorasamy (2022) emphasise that ethics centres on three key concepts: "self," "good," and "other." Individuals who act solely in their own interest, disregarding others, are deemed selfish and unethical (Williams, 2013). For a decision to be ethically sound, one must consider not only what is beneficial to oneself, but also what is good for others.

Ethical decision-making pedagogy in higher education focuses on equipping students with the skills and knowledge necessary to navigate complex moral dilemmas (Hauser & Berenbeim, 2020). Cameron and O'Leary (2015) found that students' attitudes toward moral issues without a legal component did not change significantly. This indicates that traditional ethics education might not develop the higher-order thinking skills needed for ethical reasoning. According to Bloom's taxonomy, advanced cognitive levels, such as analysis, evaluation, and creation are crucial for ethical decision-making (Krathwohl, 2002). Ethical decision-making methods in accounting education have limitations, including an overemphasis on theoretical frameworks, which may be too rigid for real-world scenarios (Ismail, *et al.*, 2018). This often neglects the importance of emotional intelligence and empathy (Lehnert, *et al.*, 2015) and lacks practical, hands-on experiences crucial to applying ethical principles (Apostolou, *et al.*, 2013). Studies by Thomas (2012) and Eynon, *et al.* (1997) explored how university accounting education influences the ethical reasoning of students. The two studies found that senior accounting students exhibit higher levels of deliberative reasoning and are more likely to use post-conventional modes of reasoning, such as utilitarianism and deontological ethics, compared to first-year students (Mill, 2016; Okougbo, *et al.*, 2021; Mitchell & Yordy, 2010). This suggests that accounting education positively impacts the ability to make ethical decisions by fostering a deeper understanding and application of ethical theories.

Incorporating ethical theories such as utilitarianism, deontological ethics, virtue ethics, relativism, and egoism into accounting education provides a comprehensive framework for teaching ethics. Thomas (2012) demonstrates that university education improves students' ethical reasoning capabilities, preparing them to face the moral challenges of the accounting profession. This holistic approach ensures that students develop a balanced perspective, appreciating both the outcomes of their actions and the importance of adhering to ethical principles.

THEORETICAL FRAMEWORK

Ethics theories

Various theories underpin the process of ethics development and teaching in accounting education. Some of these theories may inform the methodology and findings observed in this study. This study focuses mainly on the theoretical frameworks by Baghrmian (2019), Mill (2016), Okougbo, *et al.* (2021), Gedeon (2019), Papouli (2022), and Thomas (2012) (See Table 1).

Table 1: Ethics Theories

Description of the Ethical theories	How and why it was used in this study?
Virtue Ethics	
Virtue ethics emphasises the development of moral character and virtues such as honesty, courage, and integrity (Papouli, 2022). This theory posits that ethical behaviour stems from cultivating virtuous traits. Cranston, <i>et al.</i> (2014) highlight the significance of virtue ethics in accounting education by encouraging students to internalise and embody ethical principles, guiding their professional conduct.	Virtue ethics is ideal for this study, as the theory emphasises developing virtues like honesty, courage, and integrity (Papouli, 2022), encouraging students to internalise and embody ethical principles. Virtue ethics ensures that students' actions are guided by consistent principles in both personal and professional contexts (Hursthouse, 1999). This approach helps students to internalise virtuous traits, fostering a consistent and principled approach to ethics that aligns personal and professional values.
Deontological Ethics	
Deontological ethics emphasises adherence to moral rules over outcomes (Okougbo, <i>et al.</i> , 2021). Kant's philosophy asserts that actions are morally right if they follow ethical principles, regardless of consequences (Lubbe, 2014). In accounting ethics education, this approach highlights the importance of following professional codes and standards. Mitchell and Yordy (2010) note that students often rely on deontological reasoning for ethical dilemmas, while Roussos (2022) argues that such frameworks can be too rigid and fail to address real-world complexities.	Given the complex nature of ethical dilemmas in accounting, deontological ethics provides a clear framework for students to follow. This will ensure that future accountants uphold integrity and it promotes consistent ethical standards that are crucial for addressing the complexities of real-world ethical challenges (Lubbe, 2014).
Ethics relativism	
Ethics relativism posits that moral standards depend on the context and that ethical decisions should be tailored to specific circumstances (Baghrmian, 2019). Thomas (2012) and Fulmore (2015) identify relativism as a type of	Ethics relativism can be effectively applied in ethics education research to explore how students make ethical decisions based on specific contexts and circumstances. This theoretical framework facilitates the understanding of contextual decision making by analysing how students

Description of the Ethical theories	How and why it was used in this study?
deliberative reasoning used by accounting students.	adapt their moral reasoning to varied situations.
Egoism	
Egoism is an ethical theory that focuses on actions that maximise benefits for the individual decision maker, evaluating decisions based on personal gain rather than collective well-being (Overall & Gedeon, 2019). In accounting ethics education, egoism is seen as less desirable because it conflicts with the profession's emphasis on public interest and ethical integrity (West, 2017). This theory suggests that personal values centred on self-interest may not align well with professional ethical codes.	The study examines whether the personal values align with the ethical codes. Understanding egoism is essential, as it focuses on actions that maximise personal benefits (Overall & Gedeon, 2019). Recognising this, students can better align their personal values with professional ethical expectations.
Utilitarianism	
Utilitarianism, as articulated by philosophers like John Stuart Mill, evaluates the morality of actions based on their outcomes, with the primary goal of maximising overall happiness or utility (Mill, 2016). Within the domain of accounting education, utilitarianism serves as a guiding framework for ethical decision making, highlighting the significance of the consequences of actions on all stakeholders (O'Brien, <i>et al.</i> , 2017). According to Thomas (2012), utilitarianism is a fundamental mode of deliberative reasoning utilised by accounting students, as it promotes decisions that aim to balance societal benefits and costs.	In this study of ethics research in accounting, utilitarianism was applied to evaluate how students make decisions that consider the broader impacts on all stakeholders. The study designed scenarios and case studies in which students were required to choose actions that maximise overall utility, thereby assessing their ability to apply utilitarian principles.

(Source: Self)

These frameworks explain the ethical decision-making process as an interaction of social, psychological, neuroscientific, and organisational behaviour factors when a person is faced with an ethical dilemma. These theories further indicate how an understanding of the decision-making process informs how, why, and what to teach when facilitating the learning of ethics by accounting students.

RESEARCH METHODOLOGY

The research paradigm was quantitative in nature, employing two electronic questionnaires distributed to students (Bryman & Bell, 2012) and qualitative for students' responses using verbatim quotes.

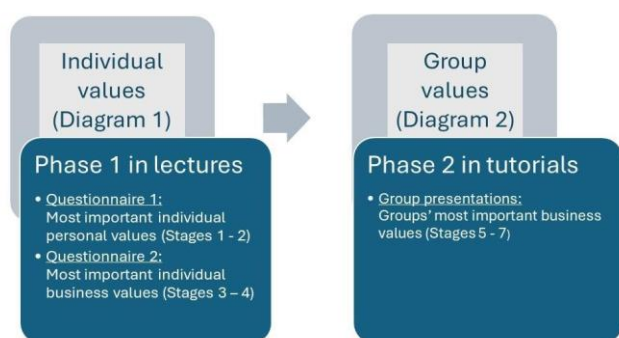
Respondents

The questionnaires were distributed to all first-year students (N=537) registered for an accounting course as part of the “Bachelor of Commerce Degree” at a large South African university. As per the nature of the study, some students may have been exposed to scandals/dilemmas/collapse of companies that could have influenced them in selecting their potential business values, but the study included students’ potential business values as an individual and as a group to determine if there were any differences between the individual and ‘potential’ business values.

Data collection

Data were collected in two phases during the first semester of the academic year as per Figure 1.

Figure 1: Phases of the data collection process: Individual and Group Values



(Source: Self)

Phase 1 consists of Stages 1 to 3 as per Diagram 1 and was conducted in lectures focussed on students’ individual responses using two electronic questionnaires. Each student completed questionnaire 1 (Stages 1 and 2) before the intervention (lecture exercise) and focussed on the 10 most important personal values (Ariail, *et al.*, 2020; Papageorgiou, *et al.*, 2022; Sheehan & Schmidt, 2015). The data was collected in Week 6 of the academic year. Questionnaire 2 (Stages 3 and 4) was completed by each student after the intervention and focussed on the ten most important values in a professional business environment, referred to as business values (Ariail, *et al.*, 2020; Papageorgiou, *et al.*, 2022; Sheehan & Schmidt, 2015). The data was collected in Week 7 of the academic year. Both links to the questionnaires were posted on the student portal and students were

asked to participate in the study. Students indicated their consent, or not, and could opt out of the study.

Phase 2 of the tutorials focussed on the responses collectively as a group. The students were divided into random groups and discussed a corporate scandal to determine the most important values in a professional business environment that the tutors captured.

Lecturers and tutors briefed students on the purpose and contribution of the research at the start of each phase. Refer to Diagram 2 for a detailed analysis of the tutorial activity intervention.

Ethics clearance was obtained from the university’s ethics committee. Data were collected by providing students with links to the questionnaires through the university portal. Students provided their consent, or not, to participate in the electronic questionnaires by indicating on the electronic questionnaires before completing the questionnaires, if they consented. All data collected through the questionnaires and group discussion were treated as confidential and no individual data were made available to compromise students’ identities.

Research instruments

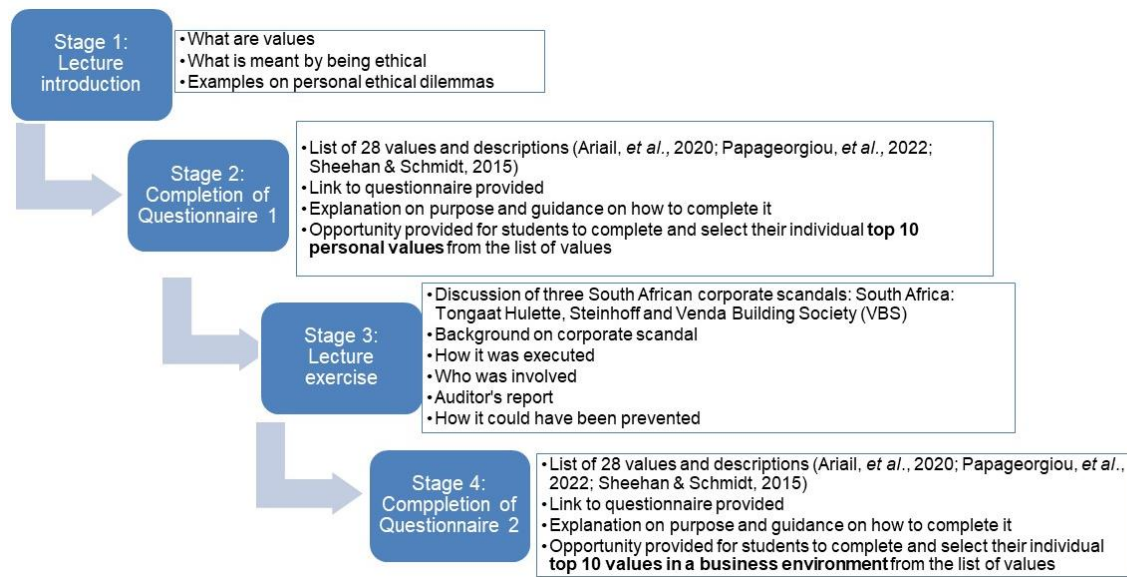
Two online questionnaires, Phase 1, and students’ group presentations, Phase 2, were used to address the purpose of this study. The questionnaires measure which values students prioritise in their personal lives compared to those in a business environment. The questionnaire for this study was based on the measurement instrument used by Ariail, *et al.* (2020), Papageorgiou, *et al.* (2022), and Sheehan and Schmidt (2015) and was adapted to measure personal and business values. The starting point for the questionnaires is a measurement instrument called the Rokeach Value Survey (RVS). RVS was originally developed by Milton Rokeach to measure which values are prioritised (Rokeach, 1968; 1970; 1973). This instrument was also used by Ariail, *et al.* (2020) to measure the alignment of the personal values of accountants in the United States with the values of the profession. RVS has been used regularly in research related to values and accounting (Ariail, *et al.*, 2012; Ariail, *et al.*, 2020).

The RVS has two lists, one with 18 terminal values related to end-states of existence focussed on life goals and 18 instrumental values related to modes of

conduct to achieve various life goals in the short term. The focus of this study is on the values that drive students' actions and decisions in the short term, therefore, the list of instrumental values was used. The RVS list was expanded to incorporate findings of the top ten values of South African first-year students as determined in the study of Papageorgiou, *et al.* (2022). This was done to ensure that it is comprehensive from a South African perspective. Next, any synonymous values were removed to ensure there is no duplication

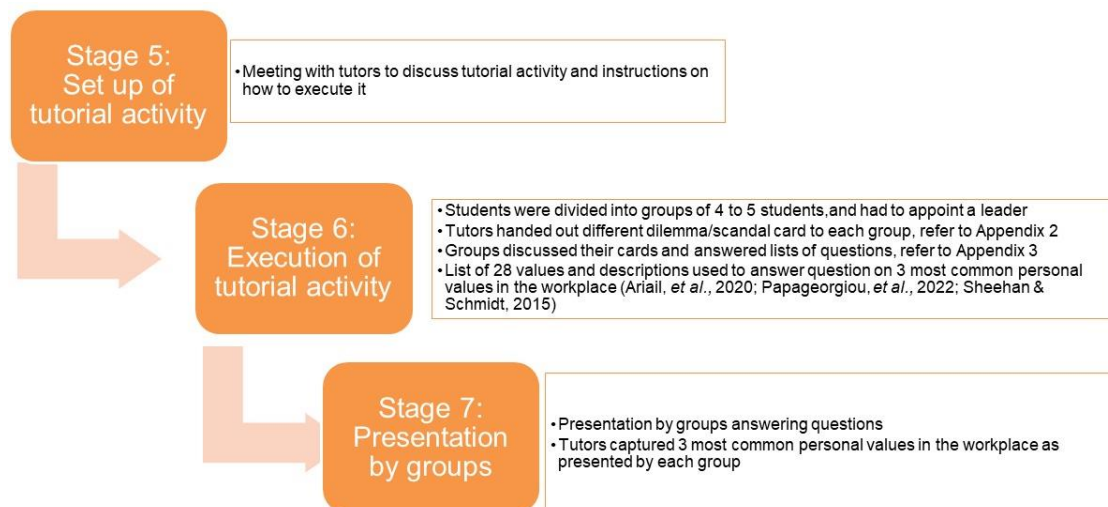
that could result in ambiguity amongst students when deciding on which value is most important. An additional two placeholders were added for students to add their own most important value should it not be on the list. The result consists of a list of 28 values (Appendix 1). The validity of the adapted RVS was ensured as the instrument is used widely in research studies (Ariail, *et al.*, 2012; Ariail, *et al.*, 2020),

Diagram 1 - Phase 1: Individual responses on personal and business values



(Source: Self)

Phase 2: Group student values (Diagram 2)



(Source: Self)

Data analysis

The data collected from the three sources were analysed using IBM SPSS Statistics Version 29.0.2. and Microsoft Excel. For Phase 1, data from the questionnaires on students' individual personal values were exported to Excel and imported into SPSS. For Phase 2, data collected from the group discussions on students' potential business values were captured on an Excel spreadsheet and imported into SPSS. For both Phases, descriptive statistics were used to determine the ranking of the values. The qualitative data were analysed producing word clouds and indicating verbatim why students rank their most important personal and potential business values as their first most important value.

FINDINGS AND DISCUSSION

The response rate to Questionnaire 1 was 88.8%, a total of 477 responses of the 537 students registered for the course. A total of 440 responses were received for Questionnaire 2, with a response rate of 81.9%.

Research Question 1 was addressed, indicating students' individual personal values. Table 2 indicates the top ten most important individual personal values selected by students and ranked from 1 to 28. 'Family' was considered the top value from Questionnaire 1 for the most, 23.5%, and second most important, 'Discipline', 12.7%, which is consistent with the studies of Papageorgiou, *et al.* (2022) and Sheehan and Schmidt (2015). The 'Family' value was selected as less important from the fourth to the tenth most important value. The 'Disciplined' value was the most prominent value among the top ten values. The value 'Honesty' is highlighted in seven of the most important values in the ranking in the top five places. The value 'Conscientious', 'to carry out my duties and obligations well and thoroughly' (Papageorgiou, *et al.*, 2022; Sheehan & Schmidt, 2015) was ranked less or not important and one would have thought that first-year students would rank this value higher to perform well in their first year of study. Other values that were not included in the list of values were Religious, Respectful, Love, and Integrity.

Table 2: Individual personal values: Ranking, top ten most important values: Questionnaire 1

Rank	1st Most Important value			2nd Most Important value			3rd Most Important value			4th Most Important value			5th Most Important value			6th Most Important value			7th Most Important value			8th Most Important value			9th Most Important value			10th Most Important value		
		F*	%		F	%		F	%		F	%		F	%		F	%		F	%		F	%		F	%		F	%
1	Family	107	23.5	Family	57	12.5	Disciplined	41	9.0	Disciplined	36	7.9	Disciplined	38	8.3	Independent	35	7.7	Independent	31	6.8	Honest	26	5.7	Helpful	32	7.0	Balance	38	8.3
2	Disciplined	58	12.7	Disciplined	56	12.3	Honest	33	7.2	Successful	32	7.0	Independent	33	7.2	Intellectual	30	6.6	Honest	27	5.9	Disciplined	24	5.3	Responsible	29	6.4	Successful	36	7.9
3	Honest	45	9.9	Ambitious	46	10.1	Independent	31	6.8	Honest	31	6.8	Economic security	27	5.9	Ambitious	25	5.5	Broad-minded	26	5.7	Helpful	23	5.0	Broad-minded	26	5.7	Responsible	35	7.7
4	Ambitious	36	7.9	Purpose	27	5.9	Economic security	30	6.6	Economic security	29	6.4	Honest	26	5.7	Responsible	23	5	Ambitious	24	5.3	Motivated	23	5.0	Motivated	23	5.0	Honest	26	5.7
5	Successful	32	7.0	Honest	23	5.0	Family	30	6.6	Broad-minded	27	5.9	Successful	26	5.7	Disciplined	21	4.6	Caring	23	5	Forgiving	22	4.8	Organised	22	4.8	Polite	22	4.8
6	Purpose	29	6.4	Broad-minded	22	4.8	Balance	29	6.4	Ambitious	26	5.7	Courageous	25	5.5	Passionate	21	4.6	Successful	23	5	Courageous	21	4.6	Friendly	21	4.6	Forgiving	20	4.4
7	Balance	19	4.2	Independent	22	4.8	Successful	29	6.4	Responsible	26	5.7	Caring	23	5.0	Broad-minded	20	4.4	Disciplined	22	4.8	Ambitious	20	4.4	Purpose	21	4.6	Economic security	19	4.2
8	Other Value	19	4.2	Caring	21	4.6	Ambitious	24	5.3	Courageous	21	4.6	Broad-minded	22	4.8	Caring	20	4.4	Courageous	21	4.6	Broad-minded	20	4.4	Ambitious	19	4.2	Capable	17	3.7
9	Economic security	18	3.9	Successful	21	4.6	Responsible	19	4.2	Balance	20	4.4	Family	22	4.8	Motivated	20	4.4	Organised	21	4.6	Economic security	19	4.2	Caring	19	4.2	Helpful	17	3.7
10	Broad-minded	13	2.9	Balance	20	4.4	Broad-minded	18	3.9	Family	19	4.2	Responsible	22	4.8	Balance	19	4.2	Economic security	20	4.4	Responsible	19	4.2	Independent	19	4.2	Independent	17	3.7
11	Independent	13	2.9	Economic security	18	3.9	Purpose	18	3.9	Caring	18	3.9	Intellectual	20	4.4	Friendly	19	4.2	Motivated	19	4.2	Successful	19	4.2	Successful	19	4.2	Ambitious	16	3.5
12	Passionate	10	2.2	Courageous	15	3.3	Capable	15	3.3	Motivated	18	3.9	Motivated	18	3.9	Helpful	19	4.2	Family	17	3.7	Independent	18	3.9	Family	17	3.7	Courageous	15	3.3
13	Responsible	10	2.2	Intellectual	14	3.1	Caring	15	3.3	Intellectual	16	3.5	Organised	18	3.9	Organised	18	3.9	Helpful	17	3.7	Logical	18	3.9	Forgiving	17	3.7	Intellectual	15	3.3
14	Courageous	9	2.0	Forgiving	13	2.9	Motivated	15	3.3	Purpose	16	3.5	Balance	16	3.5	Economic security	17	3.7	Responsible	16	3.5	Purpose	18	3.9	Honest	16	3.5	Broad-minded	14	3.1
15	Obedient	7	1.5	Polite	11	2.4	Conscientious	14	3.1	Polite	15	3.3	Logical	16	3.5	Honest	17	3.7	Capable	15	3.3	Family	17	3.7	Logical	16	3.5	Logical	14	3.1
16	Caring	6	1.3	Responsible	11	2.4	Courageous	14	3.1	Independent	14	3.1	Ambitious	14	3.1	Successful	17	3.7	Purpose	15	3.3	Intellectual	16	3.5	Courageous	15	3.3	Obedient	14	3.1
17	Capable	5	1.1	Logical	9	2.0	Intellectual	13	2.9	Helpful	13	2.9	Forgiving	14	3.1	Family	15	3.3	Intellectual	14	3.1	Passionate	16	3.5	Obedient	15	3.3	Passionate	14	3.1
18	Conscientious	4	0.9	Your other value 1	8	1.8	Forgiving	11	2.4	Passionate	12	2.6	Helpful	13	2.9	Capable	14	3.1	Polite	14	3.1	Balance	15	3.3	Polite	15	3.3	Disciplined	13	2.9
19	Friendly	4	0.9	Motivated	7	1.5	Friendly	10	2.2	Forgiving	11	2.4	Friendly	9	2.0	Courageous	14	3.1	Conscientious	13	2.9	Organised	15	3.3	Balance	13	2.9	Friendly	13	2.9
20	Polite	4	0.9	Organised	7	1.5	Obedient	9	2.0	Friendly	11	2.4	Passionate	9	2.0	Forgiving	13	2.9	Forgiving	12	2.6	Caring	14	3.1	Disciplined	13	2.9	Motivated	13	2.9

Rank	1st Most Important value			2nd Most Important value			3rd Most Important value			4th Most Important value			5th Most Important value			6th Most Important value			7th Most Important value			8th Most Important value			9th Most Important value			10th Most Important value		
21	Organised	3	0.7	Capable	6	1.3	Logical	8	1.8	Logical	10	2.2	Capable	8	1.8	Purpose	13	2.9	Friendly	12	2.6	Capable	13	2.9	Intellectual	13	2.9	Organised	13	2.9
22	Intellectual	2	0.4	Conscientious	6	1.3	Passionate	8	1.8	Capable	9	2.0	Polite	8	1.8	Logical	12	2.6	Passionate	12	2.6	Obedient	13	2.9	Passionate	13	2.9	Family	12	2.6
23	Motivated	2	0.4	Friendly	5	1.1	Polite	7	1.5	Organised	8	1.8	Obedient	7	1.5	Polite	10	2.2	Balance	11	2.4	Friendly	12	2.6	Capable	11	2.4	Caring	11	2.4
24	Helpful	1	0.2	Passionate	5	1.1	Helpful	4	0.9	Conscientious	7	1.5	Purpose	7	1.5	Imaginative	9	2	Obedient	11	2.4	Polite	12	2.6	Conscientious	11	2.4	Purpose	11	2.4
25				Helpful	3	0.7	Imaginative	4	0.9	Imaginative	6	1.3	Conscientious	6	1.3	Conscientious	7	1.5	Logical	10	2.2	Conscientious	11	2.4	Economic security	11	2.4	Imaginative	7	1.5
26				Obedient	3	0.7	Other Value	4	0.9	Obedient	4	0.9	Other Value	5	1.1	Obedient	7	1.5	Imaginative	9	2	Imaginative	10	2.2	Imaginative	5	1.1	Conscientious	6	1.3
27							Organised	2	0.4	Other Value	1	0.2	Imaginative	4	0.9	Other Value	1	0.2	Other Value	1	0.2	Other Value	2	0.4	Other Value	4	0.9	Other Value	6	1.3
28							Other Value	1	0.2																	Other Value	1	0.2	Other Value	2
	Total	456	100	Total	456	100	Total	456	100	Total	456	100	Total	456	100	Total	456	100	Total	456	100	Total	456	100	Total	456	100	Total	456	100

*F= Frequency

(Source: Self)

Research question 2 was addressed, indicating students' potential individual business/professional ethical values of the individual business/profession of the students in the business environment. Table 3 presents the individual business values of the top ten most important student potentials selected after the intervention of the students and ranked from 1 to 28 according to Questionnaire 2. Honesty, sincere, truthful, 'to act with integrity' (Papageorgiou, *et al.*, 2022; Sheehan & Schmidt, 2015) was selected as the top value for Questionnaire 2 for the most, 24.8%, in the second place for the sixth, 7.2%, both in the fourth place for the second, 8.4% and fifth, 5.7%, most important values. The values 'Disciplined', 'restrained, self-disciplined' (Papageorgiou, *et al.*, 2022; Sheehan & Schmidt, 2015) were selected as the most prominent values ranking in the first, second, third, fifth, and sixth place out of seven of the ten most important values. The value 'Honesty' is highlighted in seven of the most important values in the ranking in the top five spots. Interestingly, 'Family' was ranked as not important or not at all, indicating that 'Family' was not as important compared to students' personal individual values. The value 'Broad-minded', open-minded, to respect those that differ from me (Papageorgiou, *et al.*, 2022; Sheehan & Schmidt 2015) was selected in the second, third, and fourth places of eight of the most important values ranked in the top ten values. 'Economic security', financial comfort (Papageorgiou, *et al.*, 2022; Sheehan & Schmidt, 2015) was an important value that students selected as part of their potential business values that featured in the fifth place of the most important value and in three of the other most important values. Other values that were not included in the list of values were 'Integrity', 'Professional', 'Team Player', 'Transparent', 'Ethical' and 'Work Ethic'.

Table 3: Individual business values: Ranking, top ten most important values: Questionnaire 2

Rank	1st Most Important value			2nd Most Important value			3rd Most Important value			4th Most Important value			5th Most Important value			6th Most Important value			7th Most Important value			8th Most Important value			9th Most Important value			10th Most Important value				
		F	%		F	%		F	%		F	%		F	%		F	%		F	%		F	%		F	%		F	%		
1	Honest	104	24.8	Ambitious	48	11.5	Ambitious	40	9.5	Disciplined	46	11	Responsible	43	10.3	Conscientious	30	7.2	Intellectual	30	7.2	Logical	31	7.4	Organised	38	9.1	Logical	28	6.7		
2	Ambitious	67	16	Broad-minded	42	10.0	Disciplined	39	9.3	Responsible	42	10	Disciplined	40	9.5	Honest	30	7.2	Organised	30	7.2	Intellectual	29	6.9	Helpful	27	6.4	Successful	28	6.7		
3	Disciplined	38	9.1	Disciplined	42	10.0	Capable	32	7.6	Broad-minded	31	7.4	Intellectual	34	8.1	Motivated	28	6.7	Logical	28	6.7	Responsible	29	6.9	Responsible	26	6.2	Capable	26	6.2		
4	Broad-minded	28	6.7	Honest	35	8.4	Broad-minded	30	7.2	Ambitious	25	6	Honest	24	5.7	Intellectual	26	6.2	Helpful	26	6.2	Successful	28	6.7	Intellectual	24	5.7	Motivated	25	6.0		
5	Economic security	23	5.5	Responsible	28	6.7	Balance	23	5.5	Organised	25	6	Logical	23	5.5	Disciplined	25	6.0	Responsible	25	6.0	Organised	24	5.7	Obedient	23	5.5	Balance	21	5.0		
	Successful	21	5	Capable	25	6.0	Honest	23	5.5	Capable	23	5.5	Economic security	21	5.0	Responsible	23	5.5	Motivated	22	5.3	Disciplined	23	5.5	Motivated	21	5.0	Helpful	21	5.0		
6	Conscientious	18	4.3	Successful	23	5.5	Conscientious	22	5.3	Honest	22	5.3	Conscientious	20	4.8	Logical	22	5.3	Honest	21	5.0	Motivated	23	5.5	Broad-minded	20	4.8	Responsible	20	4.8		
7	Capable	17	4.1	Conscientious	21	5.0	Courageous	20	4.8	Courageous	19	4.5	Organised	20	4.8	Organised	22	5.3	Passionate	21	5.0	Capable	22	5.3	Courageous	20	4.8	Broad-minded	19	4.5		
8	Responsible	17	4.1	Balance	20	4.8	Intellectual	19	4.5	Conscientious	18	4.3	Ambitious	18	4.3	Broad-minded	19	4.5	Ambitious	19	4.5	Broad-minded	17	4.1	Successful	20	4.8	Conscientious	19	4.5		
9	Balance	12	2.9	Economic security	18	4.3	Successful	17	4.1	Motivated	18	4.3	Capable	18	4.3	Passionate	19	4.5	Balance	19	4.5	Conscientious	16	3.8	Balance	18	4.3	Courageous	17	4.1		
10	Motivated	12	2.9	Courageous	14	3.3	Motivated	16	3.8	Balance	16	3.8	Helpful	18	4.3	Helpful	18	4.3	Courageous	18	4.3	Obedient	16	3.8	Economic security	18	4.3	Imaginative	17	4.1		
11	Purpose	11	2.6	Intellectual	14	3.3	Responsible	16	3.8	Logical	16	3.8	Motivated	18	4.3	Ambitious	17	4.1	Disciplined	17	4.1	Passionate	16	3.8	Conscientious	16	3.8	Organised	17	4.1		
12	Passionate	9	2.1	Motivated	10	2.4	Logical	15	3.6	Economic security	15	3.6	Broad-minded	15	3.6	Capable	16	3.8	Capable	16	3.8	Purpose	15	3.6	Disciplined	16	3.8	Friendly	15	3.6		
13	Logical	7	1.7	Organised	9	2.1	Organised	15	3.6	Helpful	12	2.9	Courageous	14	3.3	Independent	16	3.8	Imaginative	16	3.8	Ambitious	14	3.3	Logical	16	3.8	Ambitious	14	3.3		
14	Family	6	1.4	Passionate	9	2.1	Helpful	13	3.1	Intellectual	12	2.9	Independent	10	2.4	Imaginative	15	3.6	Broad-minded	15	3.6	Balance	14	3.3	Passionate	16	3.8	Intellectual	14	3.3		
15	Intellectual	6	1.4	Purpose	9	2.1	Caring	12	2.9	Passionate	12	2.9	Obedient	10	2.4	Courageous	12	2.9	Conscientious	15	3.6	Courageous	14	3.3	Capable	14	3.3	Passionate	14	3.3		
16	Other value	6	1.4	Caring	8	1.9	Economic security	12	2.9	Successful	11	2.6	Passionate	10	2.4	Economic security	12	2.9	Successful	14	3.3	Economic security	14	3.3	Ambitious	13	3.1	Disciplined	13	3.1		
17	Courageous	4	1	Logical	8	1.9	Independent	12	2.9	Independent	10	2.4	Polite	10	2.4	Purpose	12	2.9	Purpose	12	2.9	Honest	13	3.1	Honest	11	2.6	Polite	13	3.1		
18	Obedient	3	0.7	Family	6	1.4	Imaginative	8	1.9	Obedient	9	2.1	Successful	10	2.4	Balance	11	2.6	Polite	11	2.6	Imaginative	13	3.1	Independent	11	2.6	Purpose	12	2.9		
19	Organised	3	0.7	Helpful	5	1.2	Passionate	8	1.9	Friendly	8	1.9	Caring	9	2.1	Obedient	9	2.1	Economic security	10	2.4	Independent	12	2.9	Friendly	10	2.4	Economic security	11	2.6		
20	Forgiving	2	0.5	Imaginative	5	1.2	Obedient	7	1.7	Imaginative	6	1.4	Imaginative	7	1.7	Successful	9	2.1	Independent	9	2.1	Helpful	11	2.6	Imaginative	10	2.4	Obedient	11	2.6		
21	Imaginative	2	0.5	Independent	5	1.2	Polite	5	1.2	Polite	5	1.2	Purpose	7	1.7	Friendly	7	1.7	Obedient	8	1.9	Polite	8	1.9	Polite	9	2.1	Forgiving	9	2.1		
22	Polite	2	0.5	Other value	5	1.2	Other value	5	1.2	Purpose	5	1.2	Friendly	6	1.4	Polite	6	1.4	Forgiving	5	1.2	Friendly	7	1.7	Purpose	9	2.1	Honest	9	2.1		
23	Caring	1	0.2	Polite	4	1.0	Friendly	4	1	Caring	4	1	Balance	5	1.2	Caring	5	1.2	Friendly	5	1.2	Forgiving	4	1.0	Forgiving	6	1.4	Independent	9	2.1		
24				Forgiving	2	0.5	Purpose	4	1	Family	3	0.7	Family	3	0.7	Forgiving	5	1.2	Caring	4	1.0	Caring	2	0.5	Caring	3	0.7	Caring	6	1.4		
25				Friendly	2	0.5	Family	2	0.5	Forgiving	3	0.7	Other value	3	0.7	Family	3	0.7	Family	2	0.5	Other value	2	0.5	Other value	2	0.5	Family	6	1.4		
26				Obedient	2	0.5				100		Other value	3	0.7	Forgiving	2	0.5	Other value	2	0.5	Other value	1	0.2	Family	1	0.2	Family	1	0.2	Other value	3	0.7
27												100				Other value	1	0.2						Other value	1	0.2	Other value	2	0.5			
28	Total	419	100	Total	419	100	Total	419		Total	419		Total	419	100	Total	419	100	Total	419	100	Total	419	100	Total	419	100	Total	419	100		

(Source: Self)

Research Question 3 was addressed to indicate whether the individual personal values were aligned with students' potential business values of the individual and group. The findings indicated that the top values were, respectively, 'family' and 'honest'. Interestingly, the students ranked 'family' much lower and in eight of the most important values as the last of all the values. A significant change was observed in the classification of the same values when ranking potential business values. Students rate 'Honest' first, but 'Ambitious' second in terms of the findings, and also first for the second and third most important value. Being too ambitious is something that might have contributed to some of the corporate scandals in the past, being too eager to earn well. The value 'Responsible', which is ranked lower and only later as the first value for the fifth most important value, acting responsibly is something that would be expected in the business environment. Values that were aligned the most for both responses were 'Disciplined' and 'Ambitious', indicating that students valued discipline and ambition, both in their studies and in the potential business environment and the future workplace. The value 'Broad-minded' was ranked much higher for the potential business values compared to students' personal values which indicated that students' perceptions of the potential business environment are more aligned with respect and openness. Students ranked 'Successful' much higher compared to student potential business values indicating that students prefer to be successful in their studies and maybe at a later stage when entering the formal workplace to be successful, which are not currently important.

The tutorial activity intervention was added to expand the study and determine if the students' potential individual business values were like students' group potential business values of the students. A total of 85 groups participated in the Tutorial Activity, refer to Diagram 2. The values collected from the tutorial activity are presented in Table 4. The Steinhoff International Scandal, Eskom Financial Mismanagement, and WorldCom Accounting Fraud indicated 'Honest' as an important business value (Rossouw & Styan, 2019; Smit, 2022). Furthermore, Steinhoff International Scandal and KPMG South Africa Audit Failures indicated 'Disciplined' as an important business value (Rossouw & Styan, 2019; Smit, 2022).

		Students' Group Business Values																			Total		
		Ambitious	Broad-minded	Capable	Caring	Conscientious	Courageous	Disciplined	Economic security	Family	Helpful	Honest	Independent	Intellectual	Logical	Motivated	Obedient	Organised	Other	Purpose		Responsible	Successful
African Bank Collapse	Count	2	2			2		1			1	5		1		2	2		4		2		24
	% of Total	0.8	0.8			0.8		0.4			0.4	2.0		0.4		0.8	0.8		1.6		0.8		9.4
Enron Scandal	Count	1						3				7			1			1		7		21	
	% of Total	0.4						1.2				2.7			0.4			0.4		2.7		8.2	
Eskom Coal Procurement Scandal	Count					1				1	3							1	2		1	9	
	% of Total					0.4				0.4	1.2							0.4	0.8		0.4	3.5	
Eskom Financial Mismanagement	Count	2	1	1		2	1	4	1		9							5		6	1	33	
	% of Total	0.8	0.4	0.4		0.8	0.4	1.6	0.4		3.5								2.0	0	2.4	0.4	12.9
KPMG South Africa Audit Failures	Count	2		2	1	2		8	1	1		6			1			1	5		6		36
	% of Total	0.8		0.8	0.4	0.8		3.1	0.4	0.4		2.4			0.4			0.4	2.0	0.0	2.4	0.0	14.1
Lehman Brothers Collapse	Count	1				1		2			4					1	1	3		3	2	16	
	% of Total	0.4				0.4		0.8			1.6					0.4	0.4	1.2		1.2	0.8	7.1	
SAA Financial Mismanagement:	Count						1	1			3			1				6				12	
	% of Total						0.4	0.4			1.2			0.4					2.4			4.7	
SARS Rogue Unit Controversy:	Count					1	1	3			4		1					1		4		15	
	% of Total					0.4	0.4	1.2			1.6		0.4					0.4		1.6		5.9	
Satyam Computer Services Fraud	Count					1	1				1										2	1	6
	% of Total					0.4	0.4				0.4										0.8	0.4	2.4
Steinhoff International Scandal	Count	1		1		1	1	8	1		10				2	2	2		3	2	5		39
	% of Total	0.4		0.4		0.4	0.4	3.1	0.4		3.9				0.8	0.8	0.8		1.2	0.8	2.0		15.3
VBS Mutual Bank Collapse	Count					1		3		1	5					1	1	5		2	1	21	
	% of Total					0.4	0.4	1.2		0.4	2.0					0.4	0.4	2.0		0.8	0.4	8.2	
WorldCom Accounting Fraud	Count		2			1			1	1	5	1	2	1		1		2		4		21	
	% of Total		0.8			0.4			0.4	0.4	2.0	0.4	0.8	0.4		0.4		0.8		1.6		8.2	
Count		9	5	4	2	13	5	33	4	2	3	62	1	4	5	5	8	4	37	2	42	5	255

Research Question 4 was addressed, indicating verbatim why students rank their most important personal and potential business values as their first most important value. Students were asked to provide context on why their first ranked value is their most important value as their personal value and as a potential value in a business environment as illustrated, respectively, in the word clouds in Figures 2 and 3. Figure 2 indicates 'family' as a frequency of n=142 for most cases as per the verbatim of students' responses.

'I believe that *family* is the most important value, since family helps shape your values by teaching you what is right or wrong' and

[illegible]

Figure 3 indicates 'business' as a frequency of n=293 for the majority of cases as per the verbatim of students' responses.

'An incapable leader will trickle down to the rest of the *business* and its employees' and 'Getting caught up in illegal activities in the *business* environment', to name a few.

Figure 3: Individual business values of students

(Source: Self)

The purpose of this study was to examine the alignment between first-year students' personal values and their potential business values, particularly in the context of ethical decision-making. The study research questions were addressed by determining the personal and potential professional/business values of the students before and after an intervention. Research focussed on understanding students' perception and prioritisation of ethical values in both personal and professional spheres.

personal and a business context. This highlights the importance of these values in their academic and future professional lives. The fourth research question why students ranked a specific value as their most important personal and potential business value, was that students believe that *family* is the most important value and that it is good to have *honesty* in business. 'Family' is vital for students because of the emotional, moral, and practical support it provides, while honesty is critical in business, particularly in accounting, to rebuild trust, ensure compliance, and maintain long-term sustainability in light of prior scandals.

The impact of this study demonstrated that accounting students are aware of ethics, corruption, and corporate governance already early in their studies compared to their final year as senior students (Mill, 2016; Okougbo, *et al.*, 2021; Mitchell & Yordy, 2010) and that they may have the opportunity to adapt their personal values during their studies, if they choose to do so. This research is valuable in assisting lecturers, students, and curriculum developers to create awareness and expose students to business ethics and the importance of their own personal values in preparing them for the workplace.

broader understanding of how students' values develop over time and across various settings.

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The Role of Artificial Intelligence in Internal Auditing: A Systematised Review

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Purpose: To explore the current landscape of Artificial Intelligence (AI) integration within Internal Audit (IA) practices, focusing on the tools and technologies utilised, their impact on audit processes, and the challenges faced.

Design/methodology/approach: A systematised literature review synthesised findings from various academic and industry sources to assess how AI-driven systems have transformed traditional auditing methods. This approach enhanced a more thorough understanding of trends, challenges, and gaps in the research, improving overall validity.

Findings: The review indicated that organisations are faced with low adoption issues such as data privacy and lack of expertise on AI technologies. The lower adoption rate for AI technologies in some categories suggests less interest in exploring AI's impact on audit practices beyond traditional areas.

Originality/contribution: The study recommended strategies that may address critical challenges, such as the need for specialised skills, data security concerns, and regulatory compliance issues. Furthermore, organisations should invest in upskilling auditors, addressing ethical considerations, and developing robust governance frameworks so that AI can be better explored.

Keywords: *Artificial Intelligence (AI), Internal Auditing (IA), systematised review*

INTRODUCTION AND BACKGROUND

This study explored the current landscape of AI integration within IA practices, focusing on the tools and technologies utilised, their impact on audit processes, and the challenges faced. IA is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systemised, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Institute of Internal Auditors, 2024). IA, a critical corporate governance and risk management component, has evolved considerably since its traditional focus on financial transactions and accounting records (Al-Taei & Flayyih, 2023). However, IA must evolve from traditional, retrospective financial compliance checks to a proactive, technology-driven approach that identifies emerging risks, enhances real-time data analysis, and aligns with broader strategic goals (Chowdhury, 2022). This shift involves embracing advanced technologies such as AI and data analytics, improving transparency, governance, and decision-making processes (Chowdhury, 2022).

Furthermore, Internal auditors must focus more on modifications like evaluating operational efficiency,

cybersecurity, sustainability, and environmental, social and governance factors while maintaining robust compliance to remain relevant and add value to their organisations in a rapidly changing environment. In these times of progressive, innovative technologies are altering how internal auditors interact with the processes and environments of organisations (Chowdhury, 2022). As a result, the profession must evolve to accommodate these modifications in light of the anticipated negative consequences of technological changes across activities and functions, which are becoming prevalent in contemporary discourses. Digitalisation affects various social activities, altering existing processes and introducing new ones (Chowdhury, 2022). AI revolutionises science, art, business, and virtually every aspect of contemporary life (Xu et al., 2021). This view extends to a growing academic interest in how behavioural AI affects other professions and industries (Khogali & Mekid, 2023).

Organisations increasingly adopt emerging Information Technology (IT) to improve operational efficiency, productivity, and cost reduction (Dwivedi et al., 2021). AI has the potential to modify observation, diagnosis, and automatic reporting at a low cost and potentially change how risk-based IA is undertaken (Kahyaoglu & Aksoy, 2021). However, existing literature reveals a limited understanding of factors impacting the

opportunities and challenges of AI adoption in IA (Hasan, 2021).

AI capabilities vary tremendously, accounting for numerous concerns. Adopting AI also triggers multiple challenges, such as data privacy and security, integration with existing systems, skills gaps, bias and fairness, and high implementation costs (Gustafsson et al., 2021). These multiple challenges span various knowledge domains, including organisation and team structure, efficiency measurement, skill sets, competencies, and organisational models needed to meet future expectations (Xue et al., 2020).

A systematised literature review has been conducted to address the changing landscape and consider the opportunities and challenges of AI in IA. Despite the potential benefits, obstacles such as the complexity of AI technologies and cultural challenges may pose barriers to AI capabilities (Alhosani & Alhashmi, 2024). This review is timely, considering the rapid advances of new technologies in the business landscape over the past years.

LITERATURE REVIEW

Evolution of IA

IA has evolved from a purely financial compliance role to a more strategic, risk-based function (Daidj, 2022). It now emphasises governance, risk management, operational efficiency, and aligning with organisational objectives, leveraging advanced technologies like data analytics, AI, and continuous auditing (Rane et al., 2024). This shift enhances IA's ability to provide proactive insights and improve organisational performance. The evolution of IA can be divided into five phases: Primitive, Traditional, Progressive, Modern, and High-Tech (Christ et al., 2021). The current era of high-tech IA is influenced by advancements in artificial intelligence and machine learning algorithms, allowing for more efficient and effective auditing processes (Akpan, 2024). This era enhances audit efficiency, accuracy, and scope by automating routine tasks, enabling real-time monitoring, and improving risk detection (Akpan, 2024).

AI: Concepts and applications

AI is a computer application that performs tasks that typically require human intellect, such as visual perception, speech comprehension, decision-making, and translation between natural languages (Jiang et al., 2022). AI performs these tasks using various algorithms, such as supervised learning networks, unsupervised learning networks, reinforcement learning networks, and convolutional neural networks (Hasan, 2021). AI applications can be classified as narrow (weak) AI or general (strong) AI, with no general AI yet (Kaplan et al., 2023). The following is an example of some AI applications linked to the above classifications (Balakrishnan, 2024):

- Audit Board uses AI to identify potential risks by analysing large datasets and predicting future threats.
- Diligent provides AI governance tools, helping ensure compliance and accountability.
- Audit Command Language Analytics applies AI to automate data extraction and analysis, improving efficiency and accuracy.
- UiPath uses AI-driven robotic process automation to streamline repetitive tasks, enhancing operational efficiency.

TeamMate+ integrates AI for real-time monitoring and auditing, ensuring continuous oversight.

Furthermore, **narrow AI**, also referred to as weak AI, is the most common form of AI today. This category includes specialised systems with narrow functions designed and trained for a particular task. Narrow AI can outperform humans at tasks (Acemoglu & Restrepo, 2020). This type of AI is widely used in various fields, such as speech recognition, online customer service, and self-driving cars.

General AI, also referred to as strong AI, is a type of AI that is under development and has the potential to outperform humans at nearly every cognitive task. This type of intelligence would be able to learn, understand, and apply its intelligence to solve any problem (Korteling et al., 2021). Although many attempts have been made to create a general AI, it still does not exist today. It is uncertain whether this type of AI will ever be created.

Superintelligent AI is the type of AI that surpasses human intelligence across virtually every aspect, including creativity, general wisdom, problem-solving, and social skills (Neubauer, 2021). Some researchers caution that this AI could pose a significant danger to humanity, while others argue that strong AI would benefit humanity.

However, the rise of AI in industrial applications is driven by expectations of quality improvements, cost reductions, intelligent tools, and limitless products and services (Kaplan et al., 2023). Industries continue to face challenges in understanding AI and adapting to its new reality (Jan et al., 2023).

Definition and classifications of AI

The term AI is comprised of two words: “Artificial” means “not genuine” or “imitation”. Whereas “Intelligence” means “intellect” or “the ability to learn, think, and understand (Fjelland, 2020 and Zhang & Lu, 2021). In general, the term AI means “imitation of intellect” by non-genuine creatures, i.e., computer systems.

During the last few decades, there has been tremendous development in the design of computer systems like Robotic Process Automation, AI, Blockchain, Data Analytics, and Cloud-based Solutions (Hassani et al., 2020). AI supports humans in several tasks, making their lives easier (Hassani et al., 2020). In this regard, developing machines that can imitate human intellect has become an imperative aim for researchers (Fjelland, 2020). As a result, AI has emerged as a field of study. AI is *“the branch of computer science that deals with the simulation of human brain functions by computer systems. AI can also be interpreted as programming the machines in such a way that these machines may think and act like humans”* (Hassani et al., 2020).

The Intersection of AI and IA

AI can increase productivity by automating labour-intensive tasks and providing in-depth analyses (Mukherjee, 2022). However, it may also increase technological dependence and reliance on vendors, raising concerns about the future employability of entry-level internal auditors or the obsolescence of the profession (Bian et al., 2021).

Current Landscape of AI in IA

IA assures governance, risk management, and control processes (Almasria, 2022). The rise of technology and global corporate scandals has heightened the need for IA, leading to increased investment in computer-assisted audit techniques, initially used in the 1990s and now significantly evolved (Aksoy & Aksoy, 2020). The audit process includes planning, fieldwork, reporting, follow-up, and supporting activities such as audit documentation, review, and quality control (Jarrah et al., 2022). However, the internal audit profession faces challenges in understanding applied information technology and using AI and deep learning systems (Chowdhury, 2021).

Benefits and challenges of AI Adoption in IA

AI can potentially transform the practice of IA, but its adoption comes with benefits and challenges (Hasan, 2021). The growing presence of AI solutions in many areas and the increasing incidence of challenges associated with their use have made this study timely (Kaur et al., 2022). Regarding benefits, AI applications can process large amounts of data and perform rapid calculations (Khan & Alotaibi, 2020). Such applications can find patterns in the data, improve performance over time, and work without fatigue (Hasan, 2021). Some challenges need to be taken into consideration. AI systems are criticised for providing results that are difficult to explain (de Bruijn et al., 2022). Consequently, it is often impossible to detect in what way and why errors are occurring in AI-generated processing (Sadasivan et al., 2023). AI solutions must also handle sensitive and personal data, making organisations that use such systems liable for data breaches or biased outcomes (Sadasivan et al., 2023).

Concerning IA, especially internal audit activity, a comprehensive literature review about the role of AI and the benefits and challenges of its adoption was missing - it is problematic because IA is changing (Jansen et al., 2020). In recent years, rapid technological development has led to significant changes in IA (Al-Taei & Flayyih, 2023). The landscape of IA is evolving due to rapid technological advancements. Some fundamental changes include automation, AI and data analytics, real-time auditing, and blockchain and cybersecurity audits. These innovations significantly enhance audit accuracy, efficiency, and transparency.

Additionally, several state-of-the-art digital technologies have become more widely available (Al-Tae & Flayyih, 2023). Moreover, due to recent high-profile corporate debacles, interest in the internal audit function and its organisational role has increased. However, the organisational role in IA has remained unchanged for years (Christ *et al.*, 2021).

RESEARCH METHODOLOGY

A systematised literature review to summarise the state of the role AI plays in IA was used. This study explored the current landscape of AI integration within IA practices, focusing on the tools and technologies utilised, their impact on audit processes, and the challenges faced. To effectively explore the research method, it was essential to outline the key steps, linking them to the broader literature on methodology. Outlining these steps ensured that the chosen approach is grounded in established theoretical frameworks, offering both reliability and validity in addressing the research questions. These steps involve formulating the research aim, selecting appropriate data collection techniques, and analysing results, collectively ensuring systematised exploration and meaningful insights that align with existing academic standards and best practices within the field. The process followed three steps:

1. The literature search strategy outlines how to identify, analyse, and evaluate relevant literature following the research topic.
2. Setting inclusion and exclusion criteria describing selecting the appropriate literature for analysis.
3. Data extraction and synthesis, detailing how to extract relevant data, including author(s), year of publication, data collection methods, and analysis techniques, to create a clearer big picture of the literature following the proposed research topic.

The searches were logically structured around keywords. Keywords have been selected for search strings to maximise relevant search results. Exact phrases will be searched using quotation marks. The given keywords and exact search strings are phrased to correspond to the research topic:

“Artificial Intelligence” OR “AI” AND “Internal Auditing” OR “IA”.

This review analysed 30 peer-reviewed articles on AI adoption in IA, although according to Grant and Booth (2009), only 14 articles are sufficient to be reviewed. Reviewing 30 papers instead of 14 in a systematic literature review was necessary to ensure comprehensive coverage of the topic, capture diverse perspectives, and increase the robustness of the findings. A larger sample size provides a more thorough understanding of trends, challenges, and gaps in the research, improving overall validity. It identified gaps, methodologies, theoretical frameworks, and contributions to the field. The review aimed to guide this study in understanding AI’s application in auditing. It covered topics not yet covered in literature, such as AI’s impact on outsourcing decisions, human judgment bias, and AI risks and confidentiality. It further explored AI applications in audit processes, suitable tasks, AI technologies, benefits and limitations, and IT and audit skills convergence.

KEY FINDINGS AND TRENDS IN THE LITERATURE

The systematised review of the literature on AI’s role in IA reveals that 25 papers express favourable opinions, with only five having a neutral stance. According to Daidj (2022), IA has evolved from focusing solely on financial compliance to a strategic, risk-based function, now playing a pivotal role in governance, risk management, and operational efficiency. It aligns with organisational objectives and incorporates technologies like AI and data analytics for continuous auditing. This shift has enhanced IA’s capacity to provide proactive insights and improve performance (Rane *et al.*, 2024). Technological advancements, particularly in AI, enable real-time monitoring, automated tasks, and enhanced risk detection, making the auditing process more efficient, accurate, and broad in scope (Akpan, 2024).

Corporate sectors, such as banking, finance, and insurance, have more neutral views, with most papers focusing on the influence of AI technology on financial auditing. High-tech internet-related industries, such as biopharmaceutical or AI-based technology development, are more likely to favour AI’s role in internal audit.

Each category of internal audit (such as financial, compliance, operational, information technology, and environmental sustainability audits) shows a generally

positive trend. However, the adoption rate for AI technology in some categories is lower, suggesting less interest in exploring AI's impact on audit practices beyond traditional areas. Early publications focus primarily on AI's role in corporate finance, audit modelling, and ethical concerns. Key search terms include AI, internal audit, machine learning, internal control, and fraud detection, highlighting AI's growing relevance in auditing.

Several papers discuss AI adoption issues in IA. Adopting AI in IA faces challenges such as data privacy concerns, lack of expertise, integration with legacy systems, regulatory compliance, and resistance to change within organisations. These issues complicate adoption. Specifically, different AI technologies are applied in IA Test texts such as natural language processing and text mining are more frequently encountered or discussed than images or computer vision-based applications.

The increased use of emerging technologies is transforming internal audit functions, enhancing their capacity to provide assurance and advisory services and improving their efficiency and effectiveness. Furthermore, emerging technologies are transforming internal audit functions by automating routine tasks, enhancing data analysis capabilities, improving risk detection, enabling real-time audits, and facilitating continuous monitoring for increased efficiency and accuracy. A common old theme is a need for internal auditors to evolve from only a backwards-looking, compliance-focused assurance role to a forward-looking, risk- and data-aware provider of assurance and advisory services.

Natural language processing text analytics and visual analytics assist traditional audit methodologies. Language processing text analytics and visual analytics assist traditional audit methodologies; traditional audit methodologies remain relevant for their structured approach, providing consistent frameworks for assessing compliance, financial accuracy, and risk management, ensuring accountability while serving as a foundation for integrating emerging audit technologies. Similarly, it was found that the careful use of technology could also enhance the development of high- and low-level audit-level solutions. Further, although technology appeared to take over the thinking aspect of IA, internal auditors were still

required to decide on the overall judgment of the audit report.

WAY FORWARD AND RECOMMENDATIONS

Integrating AI into IA presents significant opportunities for enhancing audit quality, efficiency, and scope. A systematised review of AI's role in IA suggests harnessing its potential while fully mitigating associated risks. The review makes the following recommendations.

- **Invest in AI literacy and training:** Organisations must equip auditors with the necessary skills to effectively understand and leverage AI technologies. Comprehensive training programs focused on AI, machine learning, data analytics, and robotic process automation should be implemented to ensure auditors can use these tools proficiently while maintaining critical thinking and professional scepticism.
- **Develop robust data governance frameworks:** Organisations need to establish strong data governance policies to ensure the effectiveness of AI. This includes providing data quality, security, and confidentiality, implementing data anonymisation practices, and developing data storage and processing protocols. Transparent data governance is vital to avoiding biases in AI models and maintaining audit integrity.
- **Enhance cybersecurity measures:** AI systems access vast and sensitive datasets, strengthening cybersecurity is essential. Organisations should employ encryption, secure data access protocols, and regular vulnerability assessments to protect AI systems from cyber threats. This helps safeguard sensitive information from unauthorised access or breaches. Although it is not only limited to AI as the technology is currently being applied, it is also good to expand on it.
- **Maintain human oversight and ethical guidelines:** While AI can enhance audit efficiency, human judgment remains essential. Auditors should retain oversight of AI processes, ensuring transparency and accountability. Ethical guidelines around AI usage should also be developed, focusing on

fairness, objectivity, and the responsible handling of data.

By adopting these recommendations, organisations can optimise AI's role in IA, ensuring enhanced performance and risk management.

In the context of technological advancements, it is recommended that internal audit professionals who are not yet using tools gradually use basic data analytics to visualise transactions and focus their work on details that do not fit automatically generated reports. Given the shifts in the internal audit sector, such as changes in the auditor's role, reporting lines, and methodologies, it is recommended that internal audit departments work on clarifying their strategy concerning AI and forensic audit tools. This also concerns improving executives' understanding of these technologies, given the crucial role of top management's support in successfully implementing new tools. It is also recommended that discussions on the extent of complete automation of forensic audits and job losses be shifted to a much broader perspective, given the widely acknowledged concerns in wider society about job losses due to the threat of advanced AI tools.

For organisations currently employing AI systems in their internal audit departments, it is recommended to establish clear guidelines regarding the explanations of such systems to avoid vagueness, inaccessibility, evasiveness, and ambiguous interpretations. In addition, such organisations could systematically monitor significant changes in AI procedures and the use of AI systems in their internal audit departments and provide internal audit professionals with additional expertise regarding the impact of AI systems on those procedures. For organisations employing credit scoring systems with internal audit responsibility, there is a need for greater independence of internal audit from the function that developed a credit scoring system due to the difficulty of the function to audit itself and the increased risk of lack of audit evidence. It is also noteworthy that internal audit systems are rarely used in organisations employing such systems.

IMPLICATIONS FOR FUTURE RESEARCH

The evolution of internal auditing (IA) from a financial compliance function to a strategic, risk-based role suggests several areas for future research. With IA now leveraging advanced technologies like AI, data analytics, and continuous auditing, more investigation is needed into how these technologies impact audit quality and efficiency. Research could explore best practices for integrating AI into IA, focusing on challenges such as technological dependency, data security, and ethical considerations. Additionally, examining the skills internal auditors need to adapt to these technological shifts and the effects on governance, risk management, and operational performance will be crucial for understanding the future of IA.

CONCLUSION

Concerns and opportunities for internal auditors concerning AI were also reported, along with recommendations for addressing these issues. As AI continues to advance and shape the future of professions, it is crucial to recognise its potential impact on auditing the types of AI used. More research is suggested to investigate the use of AI in IA.

The systematised review of the role of AI in IA contributes to the literature on three fronts. First, it identifies the roles AI has played and should play in the IA domain. While past studies provide insights into how technology has altered an audit strategy and conduct, a comprehensive systematised review of AI's impact and potential roles on IA has not yet been undertaken. This review elucidates AI's critical roles in IA, fueling subsequent empirical examinations regarding AI's impact on IA practices, behaviours, and effectiveness. Second, it identifies critical risks, ethical concerns, and opportunities for AI use in IA based on synthesising prior findings in related fields. By identifying and summarising potential issues regarding AI and IA, new empirical research can be directed towards these unexplored fields of investigation.

DECLARATION

This study used an AI application named WordTune to edit the document to enhance its readability instead of

using a human editor. The ideas and concepts are the original work of the researchers.

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Discerning Business Rescue Practices and Learning Areas from Purposive Interpretation Results

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Purpose and context: The purpose is to assess the opportunities to deploy the purposive interpretation (PI) approach, a form of document content analysis, to document business rescue (BR) practices required to design learning and development programmes. Multiple professional bodies have been accredited to provide experts who qualify to lead BR proceedings as provided for under Chapter 6 of South Africa's (SA) corporate law (Act No. 71 of 2008). The corporate rehabilitation practices are not generic and are regulated.

Design and methodology: The results were drawn from qualitative inquiry methods using sequenced data collection procedures. The intra- and extra-textual PI results were interpreted using practice theory lenses. Other researchers have used single-party data collection procedures to understand BR practices and business rescue practitioner (BRP) competencies.

Findings: The study presents integrated, goal-oriented, and legislated BR practices. The findings show that the BRPs have 11 tasks that can inform learning and development areas and, later, an accreditation framework. The results show that BRP occupation practices can be systematically established using a purposive interpretation of legislative instruments governing BRP work. BRP work is defined from extra- and intra-documentary purposive interpretation procedures.

Originality/contribution: The study illustrates how the PI approach can be used in the research design to document BR practices and inform a non-existent BRP occupation competency framework. The practical value of the findings is to provide a basis for documenting legislated occupational practices to inform the design of a competency framework.

Keywords: *business rescue practices, purposive interpretation, practice theory*

INTRODUCTION

More than ten occupational groupings have their members leading, as experts, the corporate renewal process (BRPs) in South Africa (SA) (Voller, 2022). Since 2011, scholars have tried to understand BRPs' competencies in South Africa (Ayaya & Pretorius, 2021a; Pretorius, 2014; Rajaram & Singh, 2018). The studies on the subject reported to date recognised practitioners as a source of practice without embracing the results of a purposive interpretation (PI) approach. The research done to date relies on mono-party data generation and analysis procedures. The review of works of Rajaram and Singh (2018 and Naidoo, Patel, and Padia (2018) show the application of survey questionnaires that failed to reflect the regulated practices that should inform the accreditation and licence of business rescue (BR) experts.

The promulgated corporate law of South Africa (Act No.71 of 2008; hereafter called the "SAPCL") outlines BR as "proceedings to facilitate the rehabilitation of a company" that is fiscally distressed by providing for the following:

- (i) The provisional management of the legal entity and the control of its business affairs, including business resources.
- (ii) An interim suspension on the entitlements of creditors against the company's assets.
- (iii) Formulating and implementing a plan to salvage the business of the fiscally distressed legal entity.

BR experts are required to prepare a BR plan. The BR plan must provide for restructuring the rescue firm's financial affairs to exploit the prospect of the company maintaining its existence on a solvent basis. Directors must perform solvency and liquidity tests each time they distribute company assets (Section 4 of the Act). Companies that are insolvent or illiquid require corporate renewal measures to be realised. The implementation of the BR plan takes effect if the plan is approved under Chapter 6 of the Act. The BRP should explore whether actions can be taken to give better returns to the claimants against the company's resources than would be the situation had the legal entity entered an immediate liquidation process. All

¹ This paper is partially based on the dissertation/thesis of *Onesmus Ayaya*, presented for the degree of *Doctor Philosophiae* at the University of Pretoria with supervisor and co-author Marius Pretorius, available at: <https://repository.up.ac.za/handle/2263/90022>

these are regulated practices warranting understanding using extra- and intra-documentary purposive interpretation (PI) approaches to understanding legal prescriptions.

The legal provisions in the SAPCL do not mention education and training activities linked to BR practices and, therefore, desired competencies. The SAPCL (section 138) further stipulates the qualifications of a BRP. Section 138(1) requires a BRP to be a person who is an expert in good standing in the profession recognised by the South African Qualifications Authority (SAQA) and accredited by the Companies and Intellectual Property Commission (CIPC), the regulator. The professional body must belong to the disciplinary areas of management and economic sciences. The person should be credible to hold a director position without being disqualified following section 69(8) of the SAPCL's requirements. In addition, the person must be licensed by the CIPC and should not be subject to a probation directive under section 162(7) of the SAPCL. Court cases also highlight that a BRP should only have a business rescue relationship with the rescue establishment to enhance integrity, impartiality, and objectivity in BR proceedings.

The current paper presents results from the PI procedures that can be used to better understand BR practices in a regulated occupation and link the emergent BR practices to learning and development areas. We focus on BR practices because occupational practices should inform BRP learning and development based on the professional certification requirements used by the regulator in terms of Section 138 of the SAPCL. The article follows the following format:

- (i) The problem statement and context of the study.
- (ii) The theory behind documenting BR practices.
- (iii) Methodological opportunities provided by the PI procedures.
- (iv) The testable research propositions and research questions.
- (v) The research methods used in the present paper and their trustworthiness.
- (vi) The study findings and discussion show practice results from the PI
- (vii) The study conclusion and valuable applications.
- (viii) The study's drawbacks and directions for imminent research

PROBLEM STATEMENT AND RESEARCH QUESTION

Licensed BRPs increased from 198 in 2019 to 324 in March 2024 (CIPC, 2024). Increased BRP numbers are supported by increased work volume (Voller, 2022). Realising the provisions in Chapter 6 of the SAPCL requires using experts who are members of SAQA-recognised education and training quality assurance (ETQA) bodies (Ayaya & Pretorius, 2021a). The SAQA-recognised ETQAs lack a BR-specific qualification framework. Consequently, four short learning programmes (SLPs), as shown in Table 1, have been used to improve the knowledge of experts from the SAQA-recognised ETQAs. The SLPs appreciate the weaknesses of BR experts' previous training regimes (Ayaya & Pretorius, 2021a). From Table 1, the SLP addresses continuing expert education needs without according participants a professional certification. Disciplinary training areas were selected for the SLPs without linking them to documented BR practices. The BR practice information used to decide on the contents of the SLPs remains to be seen. Consequently, we explore how relevant BR practices can be used to revise the SLPs.

In the last decade, studies have been published attempting to address BR-specific competencies (Naidoo, Patel & Padii, 2018; Pretorius, 2013; Rajaram & Singh, 2018). Research methods applied to develop recognised BR practices and knowledge domains provide an incoherent application of practice theory (Ayaya & Pretorius, 2021b). Some of the research that has been done used mono-party data generation and analysis procedures to determine practitioner competencies. Ehrmin and Pierce (2021) and Ayaya and Pretorius (2021b) questioned the validity of the practice and competency-related research results from the studies based on survey questionnaires. One-party data generation and analysis procedures are unsuitable for documenting practices in a regulated occupation served by experts from MPBs. A regulated occupation has peculiarities that could better be understood from a PI of the legislature's intent and aspiration.

The definitions of BR and BRP licensure requirements do not clarify what corporate renewal experts' practices and capabilities should be. BRPs' functions, assignments, activities, and required knowledge and skills have been explored and debated in the academic

literature (Ayaya & Pretorius, 2021a; Naidoo et al., 2018; Pretorius, 2014; Rajaram et al., 2018). The CIPC established a tradition to draw BRPs from MPBs (eleven progressional organisations) to render BR services (Ayaya, 2024; CIPC, 2022; Madigoe and Pretorius, 2022). Ayaya and Pretorius (2021a) showed how members of different professional bodies qualify to practice as BRPs through the ETQA bodies in the disciplinary training areas of economics and management sciences as recognised by the SAQA. The CIPC (2022) and Voller (2022) presented the BRP licensing categories, showing that 56% of BRPs on the

register were junior practitioners. Therefore, how these junior practitioners can be developed to become experienced practitioners must be asked. Transitioning from a junior to an experienced licensee requires an education and training regime that accepts known corporate renewal practices. The following question guided the present work: How should data be collected and analysed to document BR practices and BRP learning and development areas in the MPB environment?”

Table 1: Practice and knowledge gaps in the short learning programmes

Institution/provider	Course title	Content description	Gaps
University of Pretoria (UP)	CRA (5 days)	Exercising control, due diligence of the affairs, preparing the plan, realising the plan, conducting financial analysis, and creating reports for decision-making), ethical standards, and the Legal and Case Law Analysis Act’s guidelines.	Technical competencies in the disciplines contained in the content description of the CRA course cannot be addressed in five days.
University of Johannesburg (UJ)	SLP on business (4 months)	Entity reorganisation procedures and tools; the corporate renewal steps; consequences of BR and rights of stakeholders; and recovery plan preparation.	A financially distressed business firm requires more than legalistic procedures and should embrace business acumen.
Gribnitz and Appelbaum	BR Basic Training Course (3 days)	Topics covered included the BR setting, critical success drivers, BR plans and coverage, stakeholder engagement, and team support to experts.	The discussion of the critical success factors of the BR environment fails to address the technical competencies that define an occupation worth professional pursuit.
University of Southern Africa (UNISA)	Advanced Skills Development Course in BR Practice (5 days)	Initiation, conclusion, and consequences of corporate renewal proceedings; settlements in terms of section 155; the expert nomination, termination, duties and liabilities; retrenchment: labour and industrial relations and employers should know; principles of the commercial law; and principles of financial management.	The five-day course does not address the technical competencies that define an occupation worth professional pursuit.

Source: Researcher’s content analysis of learner guides associated with the short learning programmes.

SPECIFIC TESTABLE RESEARCH PROPOSITIONS AND QUESTIONS

The experts’ practices can potentially inform the education and training regime necessary to inform continuing professional development events (DoTIC, 2020) and assess those seeking BRP licences. The discussion in the present study looks for answers to the following research propositions:

- Discernible BR occupational practices can be

used to define tasks and services in a competency framework.

- BRP learning and development areas cannot be discerned from intra-and extra-textual sources.
- Faithful representation of BR practice data can be achieved through the PI approach.

The testable research propositions are linked to the questions “How should data be collected and analysed to document BR practices and BRP learning and

development area in the MPB environment?”. The related sub-questions to this main research question are:

- What are the BR professionals’ obligations discernible from intra-textual purposive interpretations?
- What is the BR professionals’ scope of work discernible from extra-textual purposive interpretation?
- What are the emergent BR professionals’ practice areas from intra-and extra-textual sources?
- How can the emergent BR professionals’ practice areas be used to define the learning and development areas?

THE THEORY BEHIND DOCUMENTING BUSINESS RESCUE PRACTICES

Practice theory (PT) emanated from the enquiries of combined practices (Alpenberg and Scarbrough, 2021; Schatzki, 2018). PT in social sciences refers to procedures that converge on studying persons’ actions and behaviours instead of their psychological processes. The PT procedures emphasise typical actions, background elements, human actions, and meanings within a social context. The fundamental idea behind the PT is that professional identities, notions, organisations, material objects and dominion acquire significance when human beings take on specific roles (Feldman & Worline, 2016).

BRP knowledge and practices are unfamiliar and varied, given Chapter 6 of SA’s Corporate Law requirements. BR practices appear non-goal structured in the MPB landscape. The PT contends that knowledge is constructed through a practitioner interface with contextual problems that call for choices (Buch & Elkjær, 2020; Bednar Cunningham, Duffy, and Perry, 2013). BR arises from contextual problems associated with financial distress and affected parties’ interests. Schatzki (2018) and James et al. (2018) argued that PT has not become a unified theory because it comprises a set of theories that use materials, descriptions of notions or ambitions, and proficiencies to explain the practice. Corporate renewal notions and aspirations are evident in the policy documents preceding the promulgation of the Act and the actual translation of legislated tasks to practices by practitioners. Deliberations facilitated by officials of DoTIC for the benefit of the Parliamentary Standing Committee, Portfolio Committee on Trade and Industry (PCTI), shed

more light on the legislators’ aspirations when debating Chapter 6 of the SAPCL’s contents. Decisions in court cases bring BR legal provisions to reality.

Knowledge commanded by a BRP becomes active when the BRP confronts required work outputs in the work setting during task execution. Skills and experience relate to the occupation setting and reveal the capabilities and practices of BRPs (Feldman, 2020; Schatzki, 2018). Consequently, a community of practice (CoP) concept guides the development of occupation practices (Feldman, 2020; Stappert, 2020). Stappert (2020) and Castanelli, Weller, Molloy, and Bearman (2020) found that BRPs are inclined to construct practice meaning within a community of practices (CoP). Therefore, a CoP provides an organisational structure within which BRPs’ outlooks and schemes are demonstrated (Tan & Chan, 2018). Such structure is non-existent in an MPB landscape.

The PT has received attention from organisation studies scholars, who use it as a theoretical framework to articulate practice tenets (Draper and Swift, 2011; Xu et al., 2021). Basias and Pollalis (2018) contended that PT offers indicators that help determine data collection and analysis procedures. BR practices form a part of the management sciences. Therefore, PT can guide the data collection on BRP occupational practices. Our preliminary insights from the literature review were that research on BRP occupational practices could benefit from data collected through the PI of BRP legislated tasks. Reported findings from the literature reviewed do not recognise the regulated dimensions of the BRP occupation. The assumption was that the onus was on the BRP to translate legislated tasks to the services required by corporate renewal clients.

METHODOLOGICAL OPPORTUNITIES FROM THE PURPOSIVE INTERPRETATION

Judicial institutions (courts and tribunals) and intellectuals have formulated a methodology to explain legal statutes (Emeziem, 2019). From the work of Cannon (2021) and Weinrib (2024), purposive interpretation (PI) refers to specific principles and rules for interpreting statutes. Du Plessis (2011) reckons employing these doctrines and regulations has resulted in a PI approach. The present submission followed the PI approach to detect the legally-constituted BRP

practices in Table 4.11. The PI methodology is founded on BR, an enacted practice area that emerged with the SAPCL (Ayaya & Pretorius, 2021a).

The PI methodology was employed in the high court case of *Pan African Shopfitters (Pty) versus Edcon Limited and Others (Case No. 10652/2020)* when an alarm was raised regarding the meaning of the word 'initiated' used in Chapter 6 of the SAPCL. Breyer (2006), Goldswain (2008), and Weinrib (2024) have argued that the PI of the enabling statute focuses on documenting the commitments, core values, and tenets a promulgated law was designed to achieve. Du Plessis (2011) contends that PI is a process of assigning meaning to legal requirements to send the intended objectives and attainment of aspirational values from the legislature.

Ayaya et al. (2020) noted that the action research (PAR) approach could be employed to document and advise on transforming occupation practices. Data can be collected within the PAR using observations and interviews (Parsons et al., 2020). We could not make practice observations during this research, so PAR was not applied. However, PI results allowed the researcher to access rich qualitative data on occupational practices. Questionnaires (Knapp et al., 2017; Liamputtong, 2009; Parsons et al., 2020) and interviews (Edward et al., 2019; Wishkoski, 2020) do not allow researchers to practice data holistically. Therefore, we proposed the PI approach to recognise regulated occupation practices (Madigoe & Pretorius, 2022; Rosslyn-Smith et al., 2019).

PT provided lenses for tackling issues in the MPB setting of the BRP occupation. However, the BR practices are recent compared to those in the legal and accountancy occupations (Madigoe & Pretorius, 2022; Rosslyn-Smith et al., 2019), allowing observation techniques to document practices. The perceived infancy will not enable non-practitioners to grasp advanced occupational practices fully. One can learn the practices from those who have led BR legal proceedings and analysed BR reality from decided cases. Alternatively, practices can be understood from participation in communities of practice (CoPs) because excellent practices emanate from networking (Kuus, 2020). However, the present paper does not consider data from non-functional CoPs in the MPB occupations depicted in the CIPC reports (CIPC, 2022).

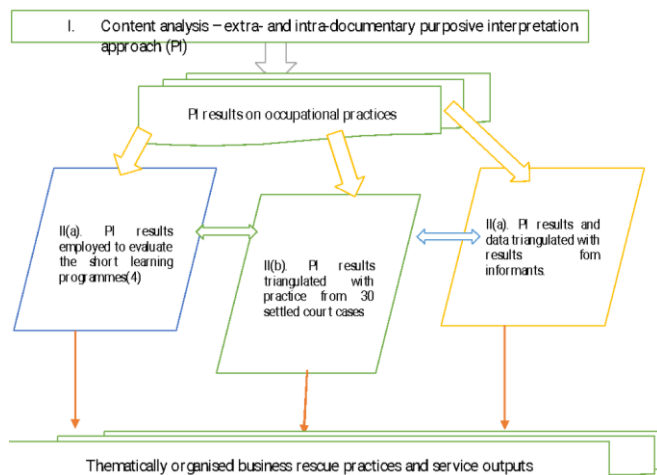
Survey tools limit researchers' ability to access rich data on occupational practices. BRPs drawn from the

MPB setting (CIPC, 2022) may have inadequate knowledge of unexpressed practices contributing to their successes and failures. BRPs can transact BR proceedings without displaying their tasks and services. Therefore, the PI results acknowledged the shortfall of depending on interviewee-BRPs to formulate practices based on a survey questionnaire. The literature on PT refers to data generation methods such as field observation (Rietmeijer et al., 2018), action research (Ayaya et al., 2020), and expert self-reports (Vermunt, 2020). The literature on PT does not consider the PI data collection and analysis procedures.

RESEARCH METHODS

Research design

Figure 1 summarises the role played by the PI approach in documenting occupational practices. The PI approach falls within the constructivist and interpretivist paradigms. A paper on occupational practices must follow an approach that generates qualitative data. The deductive approach would have served a limited purpose because the present paper is independent of testing hypotheses (Berryman, 2019). Inductive approaches relate to interpretivism associated with qualitative inquiries (James et al., 2018; Liamputtong, 2009). Hong et al. (2020) and Xu et al. (2021) argued that inductive inquiry approaches permit discoveries to emerge from the significant thematic message of the occupation practices, as evidenced by cases before a court of law. The interpretivist paradigm supported this design choice. Therefore, we used triangulation and sense-making to investigate the BR practices using diverse data sources (Cronin, 2014; Hong et al., 2020). The interpretivist paradigm maintains that knowledge is socially constructed and that its essence can be derived from occupational practices (Berryman, 2019) and human interactions.

Figure 1: Summary research design using purposive interpretation

Source: Author's synthesis of the study context and the practice theory perspectives

Case study approach

Ebneyamini and Sadeghi-Moghadam(2018) noted that case study research is a gradually more prevalent strategy in complex explorations of multi-faceted phenomena such as evaluation in actual-life sites. The present study used illustrative case study research because the designed outputs and guiding questions were specific to business rescue. The PI approach was connected to the SA corporate legal environment. Case study research is characterised by the topic, defined case borders, the aim of the study, diverse sources of evidence, enhanced setting account, and sense-making concentrating on research intentions (Alpi and Evans, 2019; Thomas, 2021) and site evidence. The present illustrative case study pertained to SA's MPB occupation setting, which exhibits non-integrated practices. The regulator-issued practice guidelines, the sections in Chapter 6 of the SAPCL, court cases, and training documents constituted the units of observation. BRPs respond to clients' needs. Therefore, the research instances required access to data collected within a framework that describes the work-related practices underlying the BRP service pack. There were manifold units of observations, which varied depending on the data generation method (Alpi and Evans, 2019). The researcher carried out a study at a legislative policy level (Turimubumwe, Adam, and Alemie, 2023) to lay the ground for interviews, if needed, to refine occupational practices. The assumption was that practice would have emerged

from the practitioner translations of regulatory and policy intents.

Data collection during purposive interpretation

McTiernan et al. (2021) argued that the findings of an inductive synthesis in a qualitative study involve developing thematic groups into a framework that sums up the field data to convey critical themes from applied procedures. This thinking informed the ingredients of Figure 1. Therefore, before analysing court cases, we transitioned from corporate policy guidelines to audio recordings at the PCTI hearings and Chapter 6 of the SAPCL. The study of an occupation's practices starts by describing the case context (Yin, 2018). We worked with randomly chosen court cases (30) with associated materials on BR proceedings.

The approach to interpreting business rescue legal provisions

Courts (Mutakha, 2015) and legal scholars (Duffy and O'Brien, 2017) developed an approach to interpreting legal prescripts, and Cannon (2021) provided specific tenets and guidelines for understanding legal prescripts. The courts use their powers and the PI procedure to eliminate enacted laws that are found to be uneven in the legislative ambitions (Mutakha, 2015). Therefore, it is not just about the language rules or words used to prescribe the practice. This procedure was employed in the SA high court matter of *Pan African Shopfitters (PTY) versus Edcon Limited and others (Case No. 10652/2020)* following discomfort about the construction and application of the word 'initiated' as used in S129(2)(a) of the SAPCL. The learned judge contended that 'initiate' in section 129(2)(a) of the Act "denotes the factual, causative action through which the legal process which gives rise to the proceedings concerned is put into motion".

The DoTIC had policy guidelines before Chapter 6 of the SAPCL was crafted. The policy guidelines, with company regulations accompanying the Act, served as a data source to understand the legislative intent behind Chapter 6 of the SAPCL. Kommers (1989) noted that the PI could take on the form of qualitative content analysis that could be christened as a "linguistic, systematic, teleological, and historical examination of the legislation". In the present submission, the PI methodology entailed applying the tenets, procedures, and schemes to read and use

Chapter 6 of the SAPCL in its broader context. To this end, we looked at intra-textual (Table 2) and extra-textual (Table 3) interpretations. The linguistic examination of a statute calls for a verbal breakdown of text and expressions used in the promulgated law.

The PCTI recorded hearings preceding the drafting of Chapter 6 of the Act for debate in Parliament (PMG, 2007). The PI approach considered the practical realisation of Chapter 6 of the Act based on the SA context, form, and substance. This approach is consistent with that of Kommers (1989), who pointed out that the courts must evaluate enacted laws against the legislated intent. For this reason, the present study methodically considered court cases to examine the occupation practices relevant to corporate renewal. The judicial institutions were well-positioned to uncover whether experts and related institutions clarified their mandates correctly.

Du Plessis and Corder (1995) stated how judicial officers chose to comprehend policy issues to avoid being caught in the politics of pre-1994 South Africa. Therefore, Du Plessis and Corder (1995) supported the use of teleological exploration, which gives a chance to provide the underlying meaning of the legal provisions pertaining to purposes, results, and ambitions used in the law. Going beyond the literal meaning of Chapter 6 of the SAPCL also implies that where there are two meanings to a legal prescript, we settled for the progressive meaning in achieving the objectives and purposes of Chapter 6 of the SAPCL. The objectives of Chapter 6 of the SAPCL were referred to in the audio recording of the discussion at the PCTI workshops on corporate law reforms that saw the promulgation of Act No. 71 of 2008. In addition, the SAPCL did not end with the lawmaking process in Parliament; therefore, regulations associated with the SAPCL were included in composing PI results (Table 2).

Population, sample size and sampling procedure

The researchers worked with a sample of 30 court cases. At the start of the fieldwork, we accessed the 435 court cases drawn from www.gnacompas.co.za. Each court case had an associated BR plan and other work outputs that were analysed. The sample size did not matter in the case study situation because the intent was to avoid generalising the findings to the population. We could make notional propositions

(Ulaga, Kleinaltenkamp, Kashyap, and Eggert, 2021; Thomas, 2021). However, Boddy (2016) demonstrated that a sample size of 20-30 is suitable for saturation.

Data analysis and study's trustworthiness

Combining the multiple data sources to derive PI results gave the researcher comfort in the study's trustworthiness. The sequenced procedures started with 1] reading the policy documents and guidelines, 2] listening to audio recordings of briefing sessions with officials from the Department of Trade, Industry and Competition (DoTIC), 3] reading the local and international laws, 4] working through randomly selected court cases, and 5] working through BR information requirements in BR plan preparation. The researcher had unrestricted access to audio recordings of the PCTI workshops preceding the promulgation of the Act, the Act itself, and other policy documents. We employed an inductive approach to analysing the collected data (Eger & Hjerm, 2021). The advanced determination of key themes required us to articulate activities from the obligations and classify them under thematically constructed tasks and BR information requirements. We continued until we had clarity about the relevance of each set of activities. This open-minded ordering permitted us to swivel "between evolving data dimensions in the PI data" on the occupational practices studied (Gioia et al., 2013; Xu et al., 2021). This helped us assess whether the emergent results had precedents or led to new practice notions. The data analysis was governed by the constant comparative method advanced by Bowen (2008). The constant comparative method is a process in which the researcher sifted through qualitative data and organised excerpts of raw data into categories according to practice attributes.

Yin (2018) recommended using opposing explanations, triangulation, judgement models, and critical generalisation. The present study used multiple sources of evidence to achieve a faithful representation of data. Salehi and Golafshani (2010) argued that reliability indicates the consistency with which research techniques and procedures are applied to enhance the trustworthiness of the conclusions drawn from a qualitative inquiry. McGannon et al. (2021) rejected the idea of reliability in favour of rigour or trustworthiness. Therefore, opposing explanations and triangulations were used to test research propositions.

RESEARCH RESULTS AND DISCUSSIONS

Professionals' obligations from intra-textual purposive interpretation

Working through the SAPCL and regulations created intra-textual PI results in (Table 3 and Table 2) to institute the intention of the SA Parliament, the SAPCL's objects, and its structure. Chapter 6 of the SAPCL was the most relevant because it documents the rights of affected parties (Table 5) and BRP obligations (Table 4). The lead expert in corporate rehabilitation must respect the rights of stakeholders or affected persons (Table 5); therefore, it is a basis for documenting the practices during the BR process

(Table 7). Later in the study, the researcher shows the connections among the individual provisions of the SAPCL relevant to experts' work as the integrated structure of "interpreting Chapter 6 of the SAPCL".

Chapter Six of the SAPCL has about 30 sections and 130 sub-sections, containing 131 sentences and 10 384 words. The Act's sections used in the intra-textual exposition are summarised in Tables 2 and 3. Column 3 in Table 2 includes the comments from the researcher's observations regarding the value of controlling knowledge of certain provisions of the SAPCL. The importance placed on the sections of the SAPCL in Table 4 is evident in the topics taught in the SLPs (Table 1).

Table 2: Intra-textual references used in the purposive interpretation

CA 2008/Regulations	Description	Researcher's noted attributable regulated practices
Section 1	Interpretations accompanying the Companies Act.	Definitions are provided in this Section of the Act.
Section 4	Solvency and liquidity test performance by directors.	The board of the fiscally distressed company and the expert will conduct Solvency and liquidity tests. Financial reports presented as per International Financial Reporting Standards (IFRS) are an essential area of expertise for experts.
Section 6 (10) & (11)	Notice announcing the availability of the documents.	As key deliverables in business rescue, experts prepare communication through notices to stakeholders consulted about decisions in the BR operation.
Section 7	Purposes of the Companies Act.	The experts should be seen as contributors to the purposes of the SAPCL. The experts contribute to entrepreneurship and business efficiency, direct participation in the rescue company's planning, and balance stakeholders' rights and obligations as they provide efficient recovery management modalities for the rescue company.
Section 16	Provisions on amending the memorandum of incorporation.	The experts could explore revising the provisions of the memorandum of incorporation (MOI) to avoid placing the rescue business in a winding-up process.
Section 22	Provisions prohibiting reckless trading.	The expert could use this to uncover the thoughtless trading acts of those in governance during the performance of due diligence.
Section 25	Location of company records.	The expert is envisaged in finding the records to contain vital information for preparing the corporate rehabilitation rescue plan.
Section 26(2)	Calculation of public interest score.	S26(2) of the SAPCL is vital in helping the expert to determine the extent of the consultation with stakeholders and the importance of the legal entity in the economy.
Section 36	Authorisation of shares.	The expert must work within the authorised shared capital when making arrangements or compromises with creditors in S155 of the SAPCL. The expert must acknowledge that only authorised shares in the MOI can be sold to raise funds to support the rescue

CA 2008/Regulations	Description	Researcher's noted attributable regulated practices
		operation. The lack of unissued authorised share capital may mean revising the MOI of the firm under rescue.
Section 37	Provides for preference rights, restriction and share capital terminologies.	The expert requires knowledge of corporate finance, funding models, etc. The skills in this area will help the expert wade through the required negotiations with different capital providers.
Section 38	Issuing shares to raise capital.	The BRP requires the skills to deal with share issues and collect unpaid balances on allotted shares. The BRP needs to command corporate finance.
Section 39	Subscription of shares.	The BRP needs to consider the modalities of existing and new shareholders subscribing to business shares under rescue proceedings. Subscribing shares and distributions to shareholders are important aspects of corporate finance a BRP should command.
Section 40	Consideration for shares.	The expert can take unpaid calls on the company's issued share capital. The expert has to consider any additional shares the company should issue as part of the rescue plan implementing. The expert can accept services and in-kind considerations for shares allotted during the rescue processes.
Section 45	Loans or other financial aid are available to those in governance.	The expert must realise the importance the financial aid could have played in the declining fortunes of a rescue entity. Debtors the company's claims against others should include advances made to company employees and directors.
Section 57(1)	Interpretation and application part.	The expert should know how governance practices in the company are dealt with about matters arising from this SAPCL or the business' MOI.
Section 66	Board of directors and prescribed officers.	Using the technical knowledge of corporate governance, the expert should command the gravitas to sail through the issues raised in the corporate governance structures occupied by directors or prescribed officers. The management and control exercised by the expert fall within the ambit of the governance structures of the rescue company.
Section 69(8)	Disqualification of a director.	The lead expert deals with directors who meet stipulated legal requirements and have agreed to serve on the company's governance structures.
Section 76(1) to (3)	Standards of directors' conduct.	The expert should command a knowledge of the ethical standards required of directors and experts appointed to lead the rescue process. Ethical training should be part of the corporate renewal expert training.
Section 76(4)	Powers and performance.	Upon taking management and control of the company, the BRP exercises the directors' powers and should have the skills to design and implement performance standards. Performance management and contracting are areas of training for the BRPs.
Section 76(5)	Director reliance.	The BRP, in the execution of rescue functions, relies on directors and employees. People management is an essential area of training BRPs should have. A BRP should be competent and also rely on competent directors and employees.

CA 2008/Regulations	Description	Researcher's noted attributable regulated practices
Section 77	Liability of directors and prescribed officers.	After assuming management and control, the BRP can make directors liable for breach of fiduciary duties. Due diligence should cover material breaches of prescribed officers and directors.
Section 158	Remedies to promote the purpose of the Act.	After taking management and control, the BRP should know court procedures for seeking remedies to promote the purpose of the Act.
Section 162	Application to declare a director delinquent or on probation.	The BRP, once appointed, deals with non-delinquent directors. The directors who violate the governance framework are bound to be delinquent. The BRP should command a knowledge of the court processes for declaring a director delinquent. The BRP should have skills to test transactions and other events that directors could have taken in the days preceding rescue resolution.
Section 165	Office hours and address of regulatory agencies.	Exercising control over the rescue business would require the expert to file documents with the CIPC. The regulator has various communication channels. Information, computer and technology (ICT) solutions save the expert time and money. The expert is expected to command technological savvy.
Regulation 169	Electronic filing and payments.	The expert operates in the digital space. The regulator processes work based on electronic payment and filing procedures. The expert requires skills and knowledge in digital solutions, enhancing control over documents and liquidity.
Regulations 6	Notice of availability of documents.	The corporate renewal process is premised on stakeholders' participatory rights and actions. Document submissions and announcements support expert obligations under the Act. Stakeholder relations, practised within the legal prescripts, allow the expert not to be forced to appear before the judicial institutions.
Regulation 123	Notices issued by the company concerning its BR proceedings.	Communication is an essential part of corporate renewal. Document submissions and messages support expert legal obligations under the SAPCL. Stakeholder relations, practised within the law, are the surest means for the BRP not to be compelled to make an appearance before the judicial institutions.
Regulation 124	Notices issued by affected persons concerning court proceedings.	The transmission of messages is an essential part of corporate renewal. Document submission and broadcast support expert obligations under the SAPCL. Stakeholder relations, practised within the law, are a surest mechanism for the expert to be sued by disgruntled affected parties.
Regulation 125	Notices concerning BR proceedings are to be issued by the practitioner.	Information exchange is an essential part of the expert work. File delivery and notices support an expert's obligations under the SAPCL. Stakeholder relations, practised within legal prescripts, allow the expert to avoid onerous court processes.
Regulation 126	Accreditation of professions and licensing of business rescue practitioners.	The experts in a corporate renewal process should meet the regulator's licensing requirements. The regulator's requirements point to the need for occupational professionalism.
Regulation 127	Restrictions on practice.	The experts leading a corporate renewal process should meet the CIPC-determined licensing requirements. A sanctioning regime is an essential component of a well-working profession.

CA 2008/Regulations	Description	Researcher's noted attributable regulated practices
Regulation 128	Tariff of fees for business rescue practitioners.	The expert is permitted to charge professional fees. The charge of professional fees should be determined by the corporate renewal results attained by the expert.

Source: Researchers' synthesis of legal prescripts

Table 3: Business rescue-specific provisions under Chapter Six of the SAPCL

Section of the Act	Part of the Act	Aspects covered	The researcher's notes from court cases
Sections 128-137	A	Initiating the rescue procedure.	Supplies the foundation for commencing a corporate renewal process. The legal requirements have restricted expert-specific obligations. The expert does not open corporate renewal proceedings.
Sections 138-143	B	Provides for the practitioner's powers and duties.	The sections of the law provide corporate renewal service packs, tasks and outputs. An expert's services may be terminated if found incapable or wanting following a failure to exercise a duty of care and due diligence. These provisions have implicit requirements for experts to be trained on corporate renewal. The judicial institutions' decisions available cite these sections of the SAPCL.
Section 144-149	C	Provides for the rights of equity instrument holders, those in governance, creditors, and personnel.	Rights related to entitlements of stakeholders that introduce more work for the expert. The legal requirements give rights that the expert must fulfil. The expert must be competent to avoid violating the rights of the affected parties. The court cases analysed reveal an immense reference to these sections of Chapter Six.
Section 150-154	D	Formulation and endorsement of the corporate rehabilitation plan.	The legal requirements explain the corporate renewal expert service pack-wide-ranging powers and duties. The activities leading to a rehabilitation plan can apprise the expert's capabilities. There must be structures for obtaining approval of corporate renewal plans.

Source: Researchers' synthesis of Chapter 6 of the Act

Tables 4 and 5 contain the summary of obligations. Special consideration was paid to the use of 'or' and 'and' when generating the obligations in Table 4. The use of "or" and "and" are significant conjunctions in English, and obligations were contemplated to exist even when 'or' is used in the requirements. We focused primarily on the expression that showed directors, experts, or companies were required to perform certain obligations. In the sub-sections with 'or', it was understood that there is an option act, which counts as an expert obligation. However, when 'and' is used in the prescript, there is no choice for the expert, company, or director. The rights of the affected parties in Table 5 and expert obligations in Table 4 show the enormity of work the rescue expert should be ready to carry. The extent of work shouldered by a BRP cannot be confused with other professional services an expert may provide. The obligations and rights are

evident in the different phases of the BR process. The rescue obligations are mostly in Parts C and D of Chapter Six of the SAPCL. The employees' rights are prominently featured in Table 5.

Table 4: Business rescue practitioner obligations in Chapter Six of the SAPCL

Period	Period				Period
	Period	Period	Period	Period	Period
BRP	5	58	29	91	183
Director	10	27	0	0	37
Company	44	3	7	3	57
	59	88	36	94	277

Source: Researchers' purposive interpretation of Chapter Six of the SAPCL

Parts A to D of Chapter Six deal with corporate rehabilitation (Tables 3 and 5) as outlined in sections

128-154. Section 155 deals with a concession offer to creditors. After considering the stakeholders' rights, the experts have the most obligations covered in Part D of Chapter Six of the SAPCL. The results in Tables 2, 4 and 5 provided a base for investigating the following questions: What are the corporate rehabilitation expert practices? What does it mean for a BRP to be an officer of the court? The SAPCL does not provide detailed rescue expert activities and outputs. The SAPCL implicitly includes information that a BRP must use to achieve work outputs. The researcher gained an understanding of expert activities from qualitative document analysis of the decided court cases and audio recordings of the PCTI.

Table 5: Stakeholders' rights ministered by rescue experts

Stakeholder	PARTS of the SAPCL				Total
	A	B	C	D	
Employee	X	X	79	91	170
Creditors	X	X	69	0	69
Shareholders	X	X	X	3	3
Affected persons	350	160	148	190	700
BRP direct obligations (Table 4)	59	88	36	94	277

Source: Researchers' purposive interpretation of Chapter Six of the SAPCL.

The powers and duties of the rescue are outlined in sections 134-137 of the SAPCL. In addition, section 140 of the Act gives the BRPs wide-ranging powers to deal with those in governance at the rescue company. The BRP can remove staff and make appointments to existing vacancies. However, BRPs can only remove and appoint staff when they are knowledgeable about the Labour Relations Act (Act No. 66 of 1995; hereafter referred to as the LRA) or when they need more people management skills. The BRP must formulate a rescue plan for the company (Table 4). According to sections 75 and 77 of the SAPCL (Table 3), the BRP commands the same responsibilities as a director. Corporate law demands that directors must be competently handled in a BR process. Consequently, BRPs must act in good faith to steer the company to recover.

Obliging instructions for the rescue expert to act on are contained in section 141 of the SAPCL. After being service-engaged, the obliging instructions call on the expert to probe the rescue company's commercial and financial dealings. The probe of commercial and financial dealings leads to the expert's evaluative task

to establish the company's rescue prospects. Other prescribed actions emanate from the due diligence and appraisal findings regarding the company's rehabilitation prospects. Instructions of this nature point to corporate rehabilitation practices and expert obligations that must be considered when defining whether the members of the existing professional organisations have what it takes to shoulder the responsibilities in sections 140 and 141 of the SAPCL.

Because of the rights provided under Parts C and D of Chapter Six of the SAPCL, the BRP must meet the rights of the affected persons (Table 5). The competencies of a BRP must be at a level where practices do not violate the rights of affected parties. The reviewed court cases referred to sections of the Act that give affected parties the power to approach the courts for redress. The number of BR cases handled by courts and the rescue proceedings initiated (Voller, 2022) indicates the reality of BR practices in SA. We established from decided court cases that the BR process is not just another management advisory service area to be added to the suite of services clients enjoy from members of professional bodies (Ayaya and Pretorius, 2021a). The Court cases (30) reviewed show that the BRP is an officer of the court. The BRPs play a part in the SA judiciary system as court officers. BRPs are tasked to contribute to the functioning of the legal mechanisms that forge the application of Chapter 6 of the Act. Simultaneously, this means pursuing the genuine interests of all parties affected by the BR process.

Business Rescue's scope of work from extra-textual literature

Table 6 shows the data sources used in the extra-textual PI. The present submission used sources such as the DoTIC's corporate legal reform guidelines, references to international comparative legal instruments, the documented history of judicial management review, draft corporate rehabilitation plans prepared by rescue experts, the SA constitutional provisions, and randomly chosen judicial precedents after 2011. The referenced sources show that the rescue expert must act in a certain way when the corporate rehabilitation process calls for a compromise, arrangements, and transactions on the exchange and contracts giving termination and netting are entered into. BR may require the termination of employee services for operational endeavours. In such

an instance, the LRA requires the expert to act. The LRA requirements add more obligations to the BRP, and the BRP's command and practice of the contract law are implicit in consideration of the LRA matters.

In addition to any other powers and duties outlined in the SAPCL, the expert assigns any expert function to personnel involved with the rescue firm's governance structures. The BRP may remove any person who forms part of the management and governance structure from office before the commencement of the rescue process. The BRP can appoint a person to the company's management team. The removal of personnel or appointment of a person is done in full acknowledgement of the developed corporate rehabilitation plan. The expert develops the corporate rescue for approval by the stakeholders. The affected parties' right to approve the BR plan creates work for the expert, who must formulate a sound corporate

recovery plan. After adopting the corporate recovery plan, the BRP will start implementing it. Specific management and technical skills are implied in all these tasks. For instance, project management skills are central to implementing the BR plan.

More skills and knowledge required in the corporate renewal process manifest when the court officer's role is considered based on the court cases that have been decided upon. The expert is an officer of the country's judicial institutions and has the responsibilities of a company director according to sections 75-77 of the SAPCL (Table 2). Therefore, the PI data analysis results point to a comprehension of the expert's intricate tasks. The web of tasks requires consideration of the extra-textual provisions (Table 6). The BRP can be held accountable for acts of omission interpreted to constitute negligence in exercising section 140's powers and functions.

Table 6: Extra-documentary sources used in the PI methodology

Legislation and sections	Brief context	Researcher's remarks
S311 of Act No. 61 of 1973, as amended	Negotiation and arrangement between a company, its shareholders, and debt instrument holders.	The Act No. 61 of 1973, as amended, had to be studied to comprehend the history behind S155 of the SAPCL.
S35A of Act No. 24 of 1936, as amended, on Solvency	The section deals with transactions on the exchange	Attempts to revoke transactions on the exchange bind those holding a position of trust in an insolvent establishment.
S35B of Act No. 24 of 1936, as amended	A contract providing for closure and netting	Suggestions involving netting off when the experts prepare the corporate rehabilitation plan
S189 Act No. 66 of 1995, as amended	Dismissals based on operational requirements are covered	Grasping employees' rights should be known to all parties; should the expert bring up S189 and S189A? The expert may entirely, partially, or conditionally defer an agreement for the duration of the corporate renewal proceedings.
S189A of Act No. 66 of 1995, as amended	Dismissal based on operational requirements by employers with more than 50 employees.	Grasping employees' rights should be known to all parties; should the expert bring up S189 and S189A? The expert may entirely, partially, or conditionally defer an agreement for the duration of the corporate renewal proceedings. This is a human capital management issue that requires conflict resolution approaches.
The DoTIC provided a corporate law reform guiding framework	The guiding framework was a policy paper depicting the DoTIC's approach to drafting the SAPCL. The guiding framework is detailed for technical consultations leading to the SAPCL.	The policy stand made in 2004 guided the drafting materials because it cited the historical context of the corporate landscape, the SA Constitution, the historical perspective of corporate governance and international comparisons. The policy framework points to the need for the licensing of experts and the purpose of the SAPCL. The break from the past is confirmed in the audio recordings of workshops conducted for the benefit of Parliamentarians.
Discussion at workshops held for the benefit of the PCTI	The recorded audio plus the minutes gave knowledge of the cabinet's intent and Parliament's ambitions and aspirations behind Chapter Six of the SAPCL	The expert obligations and the rights of stakeholders should be placed in the context of the parliamentary ambition to deviate from the 1926 judicial management review. The experts who served under the judicial management review procedures contained in Act No. 61 of 1973 may not be suitable for the regulated corporate renewal regime.
Corporate rehabilitation plans	The corporate renewal plan is key expert output regulated under the SAPCL and shows attributes of the occupational practices.	The corporate rehabilitation plan provides significant expert tasks that should inform a qualification framework for the occupations: reporting, stakeholder relations management, analysis, due diligence, finance plan, etc.

Source: Researcher's fusion of extra-documentary contents.

Table 6 illustrates that the modernisation of corporate law in SA transplanted and converged good practices from international models addressed in the DoTIC parliamentary briefings. The extra-documentary sources show that understanding the occupational service pack. Tasks must be linked to the explanation of constitutional requirements of the stakeholders, political order, society's yearning to alter from apartheid, and recognised interest in the developmental state agenda. Improved consultation and information flows accompanying the SA Constitution(Act No. 108 of 1996) are apparent in the extra-documentary PI results.

One of the extra-documentary sources is the DoTIC-published guidelines on corporate law reforms (DoTIC,

2004). The DoTIC-published policy maintains that *"Chapter 15 of the Act No. 61 of 1973 created a judicial management system that was more than 30 years old as of 2004"*. The government policy document contends:

"In practice, judicial management rarely leads to a successful conclusion. The legislative provisions regarding judicial management have remained relatively the same since they were created in 1926. By contrast, Australia and Canada, over the past decade, have introduced new systems for business rescue. (DoTIC, 2004, p. 23)"

The landscape of the systematic review of the draft companies' law during briefing workshops with parliamentarians firmed up the legislative intent

because parliamentarians serving on the PCTI asked questions in May 2007 workshops to obtain clarity on most aspects of Chapter Six of the SAPCL. The past dimension of the BRP occupation is evident in the DoTIC-issues corporate reform guidelines document. It also provides comparisons between international practices and how they compare to the practices in South Africa. Therefore, we inferred the expert tasks and services from international comparisons and other countries' reported experiences.

We noted the following from the audial recordings (PMG, 2007) of deliberations at a workshop with the PCTI:

"The business rescue was one of the most important innovations of corporate law reform in that it replaced the judicial management system. The business rescue was envisaged to be a self-administered process by the company, under the business rescue practitioner, but subject to court intervention at any time on application by any stakeholders."

The court intervention element makes the lead expert in the corporate renewal process function as a court officer. The PCTI's briefings review results further show that "business rescue recognised the interests of shareholders, creditors and employees, and provided for their respective participation in developing and approving a BR plan". This legislature's ambition is to develop a new skill set that was not in place under the judicial management review.

The government's policy on corporate law reform makes it clear that the BRP must command an integrated view of the socio-economic order. In the policy document, the DoTIC argued the following:

"Legislative and other measures, which reflect these constitutional principles, include the attempt to balance the interests of employees and employers and to enhance equity in employment, as captured in labour legislation, particularly the Labour Relations Act of 1995, the Employment Equity Act and the Skills Development Act. Other measures include the recently promulgated Broad-Based Black Economic Empowerment Act, the Competition Act of 1998, environmental regulation, and promotion of access to information by stakeholders, particularly in a corporate setting". (DoTIC, 2004)

The requirements that an expert in BR proceedings should shoulder tasks consistent with the SA

constitution, the principles of equality and impartiality, the economic laws on black empowerment (Act No 53 of 2003), the Competition Law, the Labour Relations Act (Act No. 66 of 1995), the Environmental Conservation Act (Act No. 73 of 1989), and the Promotion of Access to Information Act (Act No. 2 of 2000) are implicit in this policy.

Emergent BRP practice areas from intra- and extra-textual sources

The court cases and BR plans reviewed showed that the lead expert in a corporate renewal process is envisaged to:

- Shoulder working capital management responsibilities. The BRP must undertake the Solvency and liquidity tests in S4 of the SAPCL and make those in governance and stakeholders understand the cash and operating cycle in the rescue enterprise.
- Lead the operations management functions in the rescue enterprise. This entails analysing the day-to-day operations, and information flows to stakeholders.
- Design and realise revenue enhancement measures, including revising the balance sheet optimisation strategies. This calls for re-appraising the business pricing regime and looking for groundbreaking ways to contain operating costs.
- Make recommendations for modifying the rescue business's business model, including a range of products or services, and consider the probable scope of expansion consistent with balance sheet optimisation feasible options.
- The BRP must design a marketing strategy by assessing the business's existing marketing strategy and existing markets and identifying new market potential.
- Consider whether the rescue business has the human capital to take the company towards its mission and vision. To this end, the expert operates within the confines of the S189 of the LRA to help manage redundancy, recruitment, and development.

Occupation practice documentation research required comprehending the intricacy of expert tasks using PI. The court cases contained the perspectives of practising experts. Consequently, the documentation of the BRP practices was positioned to incorporate

claims of professionalism and capability construction flowing from corporate renewal services, tasks, and dictates. Embracing PI provided a systematic, rigorous approach to analysing the Act to document services (Table 7) and BRP tasks and mandates. Underlying this study was the need to guide the regulator and professional bodies on BRP learning and development. The SLPs fall short of the technical competencies needed to back an occupation worth a professional pursuit.

The stakeholders' rights in Chapter 6 of the SAPCL create expert obligations (Table 5). When designing a corporate rehabilitation plan, the expert strategies bring BR practices to the fore. When identified, practices can direct the activities that must be included in the expert's education and training. The experts' practices can potentially point to a competency framework necessary to inform continuing professional education events (DoTIC, 2020) and assess those seeking regulator-issued licences.

In the first 24 months of the promulgation of the Act, 119 experts were licensed to handle about 800 corporate renewal proceedings (Pretorius, 2013). Legal precedents have grown over time, and a reservoir of case law is traceable to credible sites (www.gnacompas.co.za). Jacobs (2021) probed the inclusion of liquidators in the list of licensed experts, thereby expressing doubts regarding the capabilities of those required to shoulder expert tasks. The researcher agrees with questioning the inclusion of liquidators among the CIPC-licensed experts. Pretorius (2013) and Naidoo et al. (2018) examined the competencies of those already enlisted as BRPs. Practices commanded by experts are not shared publicly except when judicial institutions have to hear cases filed against practitioners. The CIPC-licensed experts control the exhaustive practices for their competitive advantage.

The PI's expert tasks and activities are summarised in column 1 of Table 7. In column 2 of Table 7, the researcher endeavoured to construct the work outputs for each PI-generated task. Indicative learning and development areas emerged from the BR tasks derived from the PI (Column 2 of Table 7) after considering the information required in the BR process. The justifications for BR information requirements and the list of information accessed as part of the court cases helped to point to learning and development areas

such as stakeholder relations management. Other education and training areas include strategic leadership, financial reporting, corporate finance, business finance, business statistics, business law, people management, operations management, organisational development, and management accountancy. These emergent expert education and training areas still need to be fully addressed in the SLPs designed to serve as continuing professional development events (DoTIC, 2020) for BRPs.

Table 7: Business rescue practices (tasks, services and outputs)

Tasks derived from PI	Evolving expert services
Exercise managerial control of the business and financial affairs	Contracts of engagement. Preparation of template on action lists and minutes. Reconciliations of ledger account balances Preparation of cash flow statements Stores and inventory controls
Establish and confirm roles with those in corporate governance structures	Assignment of authority and responsibilities document. Position and role matrices. Records of stakeholder meetings. Revised work contracts with staff
Evaluate the feasibility of the corporate rehabilitation candidate	Business and funding model Report on results from the due diligence. Business model and marketing strategy. List of debt instruments. Report on internal control systems and governance Recommendations on the fit between the business unit's plan and the business model. Human capital and capital investments. Record of deliberations with those in governance. Correspondence with the regulator.
Assume stakeholder relations management.	Stakeholder relations, Mapping and Management plan. Communication Strategy Record of minutes and notices of meetings with affected persons. Meetings' documentation collection. Constitution of structures of affected parties and stakeholders.
Commence operations management	Supervising and evaluation framework. Record of operational team meetings. Regular cash disbursement plans

Tasks derived from PI	Evolving expert services
	Acquisitions and asset disposal plans
Perform due diligence on the business and prepare stakeholder reports.	Inventory of crucial agreements. Validation of the company's level of indebtedness. Inventory of court matters against the business firm.
Start reporting and analysis.	Pro-forma cash flow statements Statement of financial position Draft business and funding models Pro-forma statement of income.
Plan for organisational development	Performance management contracts for those in governance structures. Business processes re-engineering design. Human capital and resourcing plan.
Prepare a corporate rehabilitation plan and obtain its adoption by the affected parties.	Announcements for the meetings with stakeholders. Draft corporate renewal plan Corporate renewal plan adoption resolution and minutes
Pursue and obtain post-commencement funding to support the realisation of the corporate renewal plan.	Finance plan linked to the corporate Business needs assessment Marketing and communications strategy
Register gravitas and follow an enacted process	A draft schedule of business events and activities. Outlines for records of meetings and announcements.

Source: Researchers' synthesis of PI results

The outcome of focusing on the 'what', 'how' and 'why' in the PI data in Table 7 led to building up indicative BRP learning and development areas. We used 'zooming out' to improve internal validity or trustworthiness. The researcher analysed the selected court cases and reviewed the BR plans and templates referred to in those cases. Based on the researcher's experience with field procedures and the PI results, we created the list of practices shown in Table 7 (Column 2). Table 7 emerged from a series of iterations. The researcher used the BRP obligations (Table 4), BR process information requirements in BR plans, and audio recordings to judge and justify an activity's inclusion.

We shifted predicates representing activities and associated them to analyse experts' obligations to classify tasks (column 1 of Table 7). Grounded theory principles (Charmaz & Thornberg, 2021) were useful when combining the PI messages from different data

sources. Ground theory principles maintain that the researcher develops theoretical explanations about occupation practices based on data collected. Collecting and analysing the PI data, the study that documented practices are a sound basis for developing an accreditation framework.

The legislated obligations, rights of affected parties, and information requirements point to the activities that translate legislated tasks into occupation outputs (Table 7, Column 2). We did not rank the obligations or rights of affected persons; instead, we used them to understand the information requirements before creating the eleven task classes. Each grouping emerged based on the frequency in the PI results. Interrelationships were identified among the 11 categories of tasks. The 11 task categories do not require validation at the purposive interpretation stage. However, because they can be used to inform accreditation regulations, the attributable consultative process will demand validation of the 11 tasks before they can be used in an accreditation framework. Statutory fulfilment is cross-cutting to other expert tasks and impacts the required expert gravitas.

As used in Table 7, the tasks are general in description and require deconstruction. For example, initiating 'management control' required us to determine its operational construction and detect activities included in 'management control'. Specific work results were not attached to tasks but to actions drafted from duties and affected parties' rights. BR information requirements for access to the business's annual audit report, the memorandum of incorporation (MOI), banking information, and returns to the South African Revenue Service (SARS) pointed to BR practices indicative of BRP learning and development areas.

Actions are verb-oriented, but specific nouns are used in expressions such as 'establish the cause of business decline'. Column 2 of Table 7 synthesises the PI data. A requirement to calculate a public interest score is specific and has a direct output. Therefore, column 2 of Table 7 flows from the rights of stakeholders, obligations and task information requirements. There are implied tasks in the requirements summarised in Tables 2 and 3. The tasks include exercising managerial control, researching the affairs of the rescue firm, and preparing and realising a corporate renewal plan. The researcher used constant comparison to categorise the tasks based on the expert obligations, summarised in

Table 4. Statutory compliance requirements were manifested in the information requirements of the corporate rehabilitation process and the court cases that were reviewed.

The analysed obligations and BR information requirement showed that the BRP tasks are outlined in Column 1 of Table 7. Underpinning these tasks and their activities are knowledge of marketing management, financial modelling, strengths, weaknesses, opportunities, threats analysis, corporate finance, fiduciary risk assessment and management, organisational learning, and legal. These were compared to the content analysis results of the four SLPs (Table 1). The results showed that the absence of documented practices (Table 7) contributes to the poor design and content coverage of the SLPs. Table 1 shows the contents of the SLPs, and we established that not all BR practices are reflected in the SLP contents, which overemphasises the legislative contents of the BR process.

CONCLUSION

Through multiple data sources, the study sought to discern BR practices and how they can be used to develop BR learning and development areas. The researcher employed fieldwork procedures guided by testable research propositions linked to the question, "How should data be collected and analysed to document BR practices in the MPB environment?". The MPB environment exhibits disjointed practices when the occupational goals are clear in Chapter 6 of the SAPCL. The goal-structured nature of the BR occupation is supported by the obligations identified through the PI approach. In particular, intra-and extra-textual PI shows 11 BR tasks that generally require BR services. When combined with services, the tasks reveal possible learning and development areas listed in Column 2 of Table 7. The emergent BR professionals' practice areas point to and define the learning and development areas that go beyond what the selected short learning and development offer.

The present study mapped the PI approach (Figure 1) and explained its use with the help of an illustrative case study strategy to investigate corporate renewal practices. The soundness of the PI in the documentation of BR practices was evaluated using PT as a synthesis lens for studying occupational practices within a regulated setting of MPBs. The PI results

provided context to any subsequent interviews should players in the national skills development deem it necessary. The working environment of BRPs can change with changing technology, but the tools for researching regulated practices should evolve beyond the survey questionnaires. The PI results can complement the single-party survey questionnaires to design a BR occupational framework.

The study makes four contributions. First, the study used the PT to explain how intra- and extra-textual sources can provide initial practice data to complement interview data where needed. Secondly, we noted that using results from the PI approach permits reflections from the researcher on different data sources impacting tasks and practices needed to define learning and development areas. Thirdly, we illustrated how the PI approach could be used in a qualitative inquiry on occupational practices in MPB settings. We note that occupational practices cannot be fully captured in the survey questionnaire instruments employed in the scholarly literature. We argued that the PI approach presents a substitute approach to the survey questionnaire in resolving the South African BR occupational qualification framework design predicament. Fourthly, The BR practices and their implications for learning and development areas are summarised in Table 7. The study identified 11 tasks from employing the PI in the MPB occupational setting and how the same can inform learning and development areas.

LIMITATIONS AND FUTURE DIRECTION

The outcomes of the present submission were based on questions regarding value addition that can be derived from intra- and extra-textual PI. The study succeeded in discerning tasks and services from obligations, which points to the education and training areas in the SA's corporate rehabilitation space. However, the present results have not benefitted from the interviews with representatives of different professional groupings serving the BR occupation. The present study did not interview affected parties and BR experts in the BR proceedings. The efforts to develop a competency framework premised on discerned practices should consider findings from affected parties in the BR proceedings.

In addition, the answers to specific questions are needed before implementing the results of this case

study. The questions requiring answers include: (i) What should the role of the learning community, currently non-existent, and subject matter experts who need to be practising in the corporate renewal space be? (ii) What is the possibility of engaging parliamentary researchers to unearth messages from parliamentary oversight hearings on Chapter 6 of the Act's implementation? (iii) How should learning and development areas be created from the available service packs or SLPs? Moreover, (iv) What should be the contents of an occupation-specific qualification based on the documented practices?

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An Evaluation of E-Cigarettes' Definitions for Tax Legislation

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Purpose: Tax on e-cigarettes is imposed in South Africa through an excise duty. However, the Customs and Excise Duty Act does not contain a clear definition for e-cigarettes which may create potential tax enforcement risks. The study proposes that a definition should be included in the act. The purpose of the study was to determine whether the definition for e-cigarettes, as contained in the draft bill on The Tobacco Products and Electronic Delivery Systems Control Bill, is comprehensive enough to be included in the Customs and Excise Duty Act to mitigate all possibilities of tax avoidance.

Design/methodology/approach: The study followed a qualitative approach by means of analysing documents from a collection of countries that contained definitions for e-cigarettes in the context of tax legislation. The analysis was performed in three steps: firstly, the components that make up an e-cigarette were identified; secondly, the definitions of e-cigarettes from five countries were reviewed to determine criteria for such a definition; and thirdly, the definition of e-cigarettes as contained in the draft bill was analysed against the identified criteria.

Findings: The findings indicate that the definition of e-cigarettes in the draft bill meets the criteria identified from similar definitions in other countries. The definition is comprehensive enough for the enforcement of the excise duty and sufficiently describes the type of devices as well as their components and includes definitions for e-liquids. Therefore, it is suggested that the definition be included in the Customs and Excise Duty Act or that the tax authority could issue a related guidance document on the taxation of e-cigarettes.

Originality/contribution: International experience has shown the importance of having a clear definition of e-cigarettes for effectively imposing a tax on them. Taxpayers and tax officials will benefit from having a clear understanding of what is considered to be an e-cigarette and what the tax implications are for buying and selling e-cigarettes in South Africa.

Keywords: *E-cigarettes, vapes, tax, custom and excise duty, e-liquids, South Africa*

INTRODUCTION

Orientation

The growing evidence from global studies of the harmful effects of electronic cigarettes (e-cigarettes) necessitates the urgency for e-cigarettes to be comprehensively regulated in South Africa (Egbe, London, Kalideen, Delobelle & Datay, 2020). South Africa has adopted a policy to levy an excise duty on all solutions (e-liquids) used in e-cigarettes at a flat rate, with effect from 1 June 2023 (Minister of Finance, 2022). The initial excise duty rate levied on e-liquids was R2.90 per millilitre but this was increased to R3.04 per millilitre in the 2024/2025 Budget (National Treasury, 2024a). When introducing and imposing a tax on a product, the legislation should be clear about what is being taxed. The purpose of this article is to investigate whether this has been successfully

achieved in South Africa or if further clarification is required.

Firstly, to understand the provisions regulating e-cigarettes, it is important to differentiate between heated tobacco products and e-cigarettes. Unlike heated tobacco products that contain tobacco, e-cigarettes do not contain tobacco but may or may not contain nicotine (National Treasury, 2020). Furthermore, heated tobacco products are taxed differently from e-cigarettes and therefore, only e-cigarettes will be discussed further in this article.

All legislation and regulations governing e-cigarettes in South Africa need to be considered. In the Medicines and Related Substances Act No. 101 of 1965 (Medicines and Related Substances Act), nicotine is defined and registered as a drug when intended to be used as a smoking cessation aid or substitute for a tobacco product as defined in the Tobacco Products

¹ This paper is partially based on the dissertation of Tasneem Gathoo (first author), presented for the Masters of Commerce in South African and International Tax degree at the University of Johannesburg with supervisor and co-author Prof Marina Bornman.

Control Act 83 of 1993 (Tobacco Products Control Act). E-cigarettes marketed as a recreational device and not specifically as a smoking cessation aid will not be regulated by the Medicines and Related Substances Act. Further, e-cigarettes that contain nicotine may be considered a substitute for a tobacco product, but those that do not contain nicotine will not be regulated by the Medicines and Related Substances Act. A loophole relating to e-cigarettes exists in the enforcement of this piece of legislation and therefore, the definition for nicotine as contained in the Medicines and Related Substances Act will not be discussed further in this article.

The Tobacco Products Control Act in its current form does not regulate e-cigarettes and will be repealed and replaced by the Tobacco Products and Electronic Delivery Systems Control Bill (draft bill) (National

Treasury, 2021). The draft bill, which has not yet come into effect, includes regulations on the consumption, sale, advertising and distribution of e-cigarettes (Minister of Health, 2022). All types of e-cigarettes are not defined in any other legislation in South Africa. Therefore, the definitions related to e-cigarettes as contained in the draft bill will be analysed in this article.

Another type of regulation imposed on e-cigarettes in South Africa is the tax that is imposed on e-cigarettes through an excise duty. Excise duties are levied on e-cigarettes in terms of the Customs and Excise Duty Act, No. 91 of 1964 (Customs and Excise Duty Act) as shown in the extract in Table 1. The article description of tariff subheading 24.04 defines e-cigarettes subjected to the excise duties corresponding to tariff subheadings 2404.12 and 2404.19.10. E-cigarettes are not defined elsewhere in the Customs and Excise Duty Act.

Table 1: Extract from Part 2A of Schedule 1 to the Customs and Excise Duty Act

Tariff Item	Tariff Subheading	Article Description	Rate of Excise Duty
104.37	24.04	Products containing tobacco, reconstituted tobacco, nicotine, or tobacco or nicotine substitutes, intended for inhalation without combustion; other nicotine containing products intended for the intake of nicotine into the human body:	
104.37	2404.1	Products intended for inhalation without combustion:	
104.37	2404.11	Containing tobacco or reconstituted tobacco:	
104.37	2404.11.1	Containing reconstituted tobacco:	
104.37.01	2404.11.11	Imported from Switzerland, put up for retail sale in the form of sticks	R8.16/10sticks
104.37.03	2404.11.13	Imported from Switzerland, other	R1 020.69/kg
104.37.05	2404.11.15	Other, put up for retail sale in the form of sticks	R8.16/10sticks
104.37.07	2404.11.19	Other	R1 020.69/kg
104.37	2404.11.9	Other:	
104.37.11	2404.11.91	Put up for retail sale in the form of sticks	R8.16/10sticks
104.37.13	2404.11.99	Other	R1 020.69/kg
104.37.14	2404.12	Other, containing nicotine	R3.04/ml
104.37	2404.11.19	Other:	
104.37.16	2404.19.10	Containing nicotine substitutes	R3.04/ml
104.37.19	2404.19.20	Other, put up for retail sale in the form of sticks	R8.16/10sticks
104.37.21	2404.19.90	Other	R1 020.69/kg

Source: National Treasury (2024b)

A taxation policy on e-cigarettes may impose a tax on all of the components of an e-cigarette or one or more components of an e-cigarette, such as the e-cigarette device, e-liquid, nicotine content etc. (Dauchy & Fuss, 2023; National Treasury, 2021; World Bank Group Global Tobacco Control Program Team, 2019). It is

therefore necessary for the legislation to specify which component/(s) will be subjected to the tax.

In South Africa, the current tax policy imposes an excise duty on the volume of e-liquid (per millilitre). The Customs and Excise Duty Act as stated in Table 1

describes the product as follows (National Treasury, 2024b):

“Products containing tobacco, reconstituted tobacco, nicotine, or tobacco or nicotine substitutes, intended for inhalation without combustion; other nicotine containing products intended for the intake of nicotine into the human body”.

This definition does not refer to any components of the e-cigarette. More importantly, by reading this description, it is not made clear to the taxpayer that the volume of e-liquid is subject to tax.

Based on the above, it is clear that e-cigarettes are not clearly defined in the Customs and Excise Duty Act or its associated Schedule. This raises the question as to how effectively the legislation can be imposed when the product that it aims to tax has not been clearly defined in the imposing legislation. The experiences of Italy and Korea as highlighted below emphasise the importance of adequately defining e-cigarettes for the imposition of tax.

In Italy, the *Corte Costituzionale, Sentenza* (Constitutional Court, Sentence, Italian) No. 83/2015 declared the draft legislation to tax e-cigarettes unconstitutional in 2015. The court found that the definition provided for e-cigarettes in the legislation did not clearly set out which components of the e-cigarette would be subject to tax and on that basis would give too much autonomy to the tax administration in applying the legislation (Corte Costituzionale, 2015; Figueroa, 2015). The finding of this case highlights the emphasis that should be placed on adequately defining an e-cigarette to ensure that the tax on e-cigarettes is fairly applied.

In Korea, on the other hand, e-cigarettes were too narrowly defined in the legislation. The definition of e-cigarettes refers only to e-cigarettes that use a solution containing nicotine (Korea Legislation Research Institution, 2018). Businesses then started selling nicotine separately allowing users to mix their own solutions which led to the unintended consequence of enabling users to avoid 95% of the taxes levied on e-cigarettes (World Bank Group, 2018).

Accordingly, as part of a tax policy, the definition of e-cigarettes should be carefully designed to avoid being

too rigid and allowing taxpayers to circumvent the tax base as was the case in Korea, as well as to ensure that is not too vague to allow for too much authority to be given to tax administrators in applying the legislation, as was the case in Italy. It is therefore of utmost importance for the South African tax legislation enforcing the tax on e-cigarettes, which is still in its infancy stage, to clearly define e-cigarettes in the Customs and Excise Duty Act or to issue guidance that clearly identifies the product being taxed.

Research purpose and objective

The purpose and objective of this article is to provide suggestions for a definition for e-cigarettes to be included in the Customs and Excise Duty Act in South Africa or in a guidance document which could be published by the South African Revenue Service (SARS). The Customs and Excise Duty Act is administered by SARS. This purpose will be achieved by analysing the following:

- General components and operation of an e-cigarette.
- Definitions of e-cigarettes published in the legislation of Korea, Italy, Latvia, Russia and Kenya in the context of their respective tax policies.
- Definitions of e-cigarettes contained in the draft bill to determine a holistic definition that can be applied to tax e-cigarettes in South Africa.

Problem statement

The problem is that an excise duty has been levied on e-cigarettes in the Customs and Excise Duty Act, however, the description that is meant to let the taxpayer know what product is being taxed, is very ambiguous and not very clearly defined, as is illustrated in **Table 1**. The implication thereof is that taxpayers could easily engage in tax avoidance schemes.

RESEARCH DESIGN

A qualitative research methodology was adopted in this article as only data from text documents were analysed (Leavy, 2014). The analysis involved three steps before concluding with suggestions for defining e-cigarettes in the Customs and Excise Duty Act in South Africa or a related guidance document. Firstly, the components that make up an e-cigarette and how they are operated were studied as the researchers

cannot achieve the objective of this article without understanding the composition and operation of the product.

Secondly, the definitions of e-cigarettes as defined in the legislation of Kenya, Russia, Korea, Latvia and Italy were analysed. These countries were selected for the following reasons:

- Kenya is a fellow African country.
- Russia is a fellow BRICS country whose joint purpose is to promote cooperation amongst emerging market economies and developing countries (BRICS, n.d.).
- Korea was one of the first countries to levy a tax on e-cigarettes in 2010 (World Bank Group, 2018).
- Latvia taxed e-liquids used in e-cigarettes on multiple levels, namely by volume and nicotine content (Latvijas Vēstnesis, n.d.a).
- Italy whose initial definition for e-cigarettes was declared unconstitutional as discussed in the introduction above.

From the above studies, the researchers were able to create a set of criteria detailing the minimum elements that should be included in a comprehensive definition of e-cigarettes in tax legislation.

Thirdly, the definition of e-cigarettes as contained in the draft bill was also analysed against the criteria as this is a draft definition that may be implemented into South African legislation, albeit not currently intended for any tax legislation. Lastly, suggestions are provided for definitions for e-cigarettes to be included in the Customs and Excise Duty Act in South Africa or a related guidance document.

Data was sourced from academic databases, Google Scholar, websites such as the World Health Organization and countries' tax authority websites using keywords including e-cigarettes, cigarette device, e-liquids, vape device in conjunction with taxation. Using credible databases and websites, enhanced the trustworthiness of findings. Data retrieved was analysed with a view to describe the components of e-cigarettes and the existing definitions of e-cigarettes.

LITERATURE REVIEW

E-cigarettes are battery-powered devices that heat a solution, referred to as the e-liquid, which produces an aerosol that is inhaled by the user to simulate cigarette smoking (Perucic, Sandoval, Malik & Morales-Zamora, 2022). There are two types of e-cigarettes. Electronic Nicotine Delivery Systems (ENDS) and Electronic Non-Nicotine Delivery Systems (ENNDS) are types of e-cigarettes that are operated in the same manner but are differentiated on the basis that ENDS utilises an e-liquid with nicotine whilst ENNDS e-liquids are nicotine-free (Dauchy & Fuss, 2023).

The World Health Organisation (WHO) (2021) stressed the need for ENDS and ENNDS to be clearly defined to ensure that none of these products escape the regulations because it is inadequately defined and is especially relevant to ensure that the imposition of a tax on these products is not circumvented. Even though South Africa is taxing e-cigarettes as legislated in the Customs and Excise Duty Act, e-cigarettes have not been well defined in the legislation.

The definition of e-cigarettes should be carefully calibrated. Lempert, Grana and Glantz (2016) have emphasized that when developing a definition for e-cigarettes, it should be wide enough to incorporate products that are currently available in the market as well as innovative products that are constantly entering the market at a rapid rate. The definition should also be specific enough to establish which elements of e-cigarettes as well as their related and unrelated accessories, such as universal charger cables, are subject to the tax (World Bank Group Global Tobacco Control Program Team, 2019).

It is also important to ensure that the definition caters to the various taxation policies that may be imposed on e-cigarettes. The structure of excise tax imposed on e-cigarettes varies amongst countries. Dauchy & Fuss's (2023) study summarised that countries may opt to adopt a policy that imposes a tax on the following components:

- All e-cigarettes and their related products (including the device, e-liquid and accessories);
- All e-liquids used in e-cigarettes, irrespective of their nicotine content;
- Only e-liquids that contain nicotine; or
- All e-cigarette devices (excluding e-liquids).

The taxation policy adopted by a country may be designed to apply the tax to one or a combination of the above-mentioned components (National Treasury, 2021; World Bank Group Global Tobacco Control Program Team, 2019).

The components subject to tax have been changed over time within some jurisdiction's tax policies. Italy initially proposed to tax the e-cigarette device and later amended its policy to tax e-liquids instead (Gazzetta Ufficiale Della Repubblica Italiana, 2014). Similarly, Kenya taxed the ENDS device as well as the cartridge used in ENDS, a component of the device (Kenya Gazette Supplement, 2015), and subsequently announced that it intends to tax e-liquids containing nicotine (Kenya Revenue Authority, 2022). It is therefore important for the definition of e-cigarette to be wide enough to cover the different components of e-cigarettes so that it can cater to future changes in tax policy.

In summary, applying the principles of Dauchy and Fuss's study and Italy and Kenya's tax policies, a good definition for e-cigarettes as contained in a tax policy should define all of the components of e-cigarettes, namely:

- E-cigarette device, differentiating between ENDS and ENNDS, as well as their components,
- E-liquids, irrespective of their nicotine content
- E-liquids that specifically contain nicotine

The definitions of e-cigarettes as contained in the various countries' legislation and the draft bill will be analysed against these criteria.

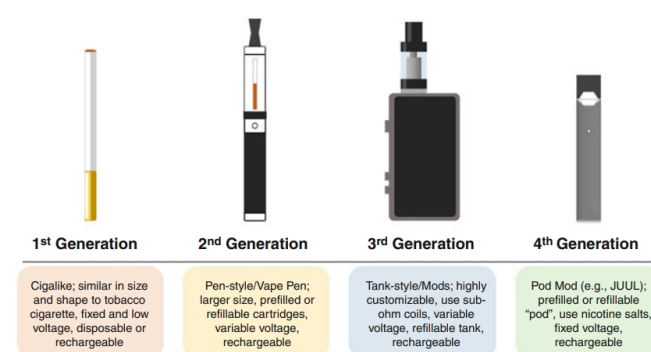
RESULTS AND DISCUSSION

General components and operation of an e-cigarette

E-cigarettes have rapidly evolved since their introduction into the market. The transformation of e-cigarettes is evidenced by the different generation devices which are available in the market. First-generation devices, the earliest type of e-cigarette, have progressed to fourth-generation devices which are distinguished from each other according to their various characteristics, such as appearance, design, operational functionality, device components and e-liquid ingredients (Ozga, Felicione, Douglas, Childers &

Blank, 2022). The different generation devices and a brief description thereof are shown in Figure 1. Amongst the different generation devices, there are similarities and differentiating factors. The similarities and variations of e-cigarettes shown in Figure 1 are discussed below.

Figure 1: Different generation e-cigarettes



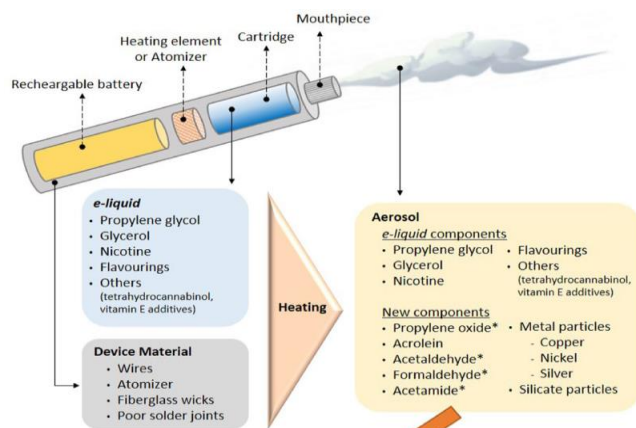
Source: Li & Zhu (2022:201)

Similarities: E-cigarette devices

E-cigarettes are available as non-disposable or disposable devices. Disposable devices cannot be recharged or refilled with e-liquids and are also referred to as closed systems, whereas non-disposable devices are rechargeable and refillable and are referred to as open systems (Omariye, Williams, Bozhilov & Talbot, 2021).

E-cigarettes are made up of various components. They commonly comprise a battery, atomiser, cartridge and mouthpiece (Gong, Gosh & Hoet, 2023). The e-liquid is stored in the cartridge or fluid reservoir of the e-cigarette (Boykan & Goniewicz, 2021). Other components such as wires, plastics and casings are also used in these devices to stabilise and keep the components in place (Marques, Piqueras and Sanz, 2021). Figure 2 illustrates these components and lists some other common components found in e-cigarettes.

Figure 2: Components of e-cigarettes



Source: Marques, Piqueras and Sanz (2021:3)

Similarities: E-liquids

E-liquids are mainly comprised of a humectant such as propylene glycol, glycerol or both, a flavouring agent and may or may not contain nicotine (Borgini, Veronese, De Marco, Boffi, Tittarelli, Bertoldi, Fernandez, Tigova, Gallus, Lugof, Gorini, Carreras, Lopez, Continente, Semple, Dobson, Clancy, Keogan, Tzortzi, Vardavas, Lopez Nicolas, Starchenko, Soriano, Rupercht & TackSHS Project Investigators, 2024). As shown in Figure 2 above, e-liquids may also contain a range of other components.

A wide variety of flavoured e-liquids are available in the market (Krüsemann, Boesveldt, de Graaf & Talhout, 2019). The many pleasant flavours and the customisation in the level of nicotine content consumed in e-liquids make e-cigarettes a very desirable product among users (Marques, Piqueras & Sanz, 2021).

Similarities: Operational functionality

The operation functionality of e-cigarettes also bears many similarities. All e-cigarettes contain a battery, which may be rechargeable or non-rechargeable and is usually made from lithium-ion (Lerner et al., 2015; Boykan & Goniewicz, 2021). The atomiser, also referred to as the heating element, contains a wick and coil and is powered by the battery. The wick, contained within the coil, delivers the e-liquid to the coil and the coil, which is made of resistance wire, conducts the flow of an electric current which enables the e-liquid to be converted into an aerosol (National Academies of Sciences, Engineering, and Medicine (National

Academies of Sciences), 2018; Boykan & Goniewicz, 2021).

The e-liquid is the solution that when heated, turns into an aerosol and is inhaled by the user through the mouthpiece (Boykan & Goniewicz, 2021). The humectant contained in e-liquid is responsible for producing this aerosol (National Academies of Sciences, 2018; Li & Zhu, 2022).

Variations in e-cigarettes

The most obvious differentiator of the different generation devices is the appearance of these devices as is shown in Figure 1. In addition, there are differences in the components, operational functionality and e-liquids used in the different generation e-cigarettes. These differences are discussed below.

First-generation devices

As illustrated in Figure 1, first-generation devices were developed to resemble and reproduce the smoking experience of a traditional cigarette (Brown & Cheng, 2014). These devices were designed with a fixed battery that operates at a low voltage and wattage (Williams & Talbot, 2019). The cartridges in these devices were not transparent as it was covered in a metal or plastic casing (National Academies of Sciences, 2018).

There were several variations in the design of first-generation devices. The original devices contained a separate atomiser, cartridge and battery (Williams & Talbot, 2019; Boykan & Goniewicz, 2021). The second version contained a battery and a single unit containing a cartridge and atomiser, referred to as a cartomiser (Williams & Talbot, 2019; Grana, Benowitz & Glantz, 2013) whilst the third version combined all three components into a single unit (Boykan & Goniewicz, 2021).

Second-generation devices

Second-generation devices were designed to be larger than first-generation devices and its shape often resembled that of a pen as is shown in Figure 1. These devices were designed with higher capacity, rechargeable batteries and refillable fluid reservoirs (Williams & Talbot, 2019). A new feature of these

devices was the inclusion of a button that controlled the frequency and length of puffs discharged and inhaled by the user (Grana et al., 2013).

Another introduction to e-cigarettes that originated with this device was the inclusion of a clearomiser. The clearomiser is a component similar to the cartomiser except that it has a transparent casing and can hold more e-liquid than the cartridges designed for first-generation devices (National Academies of Sciences, 2018; Williams & Talbot, 2019).

Third-generation devices

By the time third-generation devices were introduced to the market, e-cigarettes had developed a unique character distinguishable from traditional cigarettes, commonly referred to as vapes (National Academies of Science, 2018). As can be seen in Figure 1, these devices are often shaped in a rectangular or square form, which are even larger than their predecessors.

These devices were designed as highly sophisticated devices, allowing users to customise the device according to user preference. Users can rebuild the coil in the atomiser and the cartridge to hold more e-liquid (Williams & Talbot, 2019). Through modifiable batteries, the user can customise the voltage and wattage conducted through the device which results in the production of more aerosol being released (Boykan & Goniewicz, 2021).

Fourth-generation devices

The appearance of fourth-generation devices has transformed further from cigarettes or previous-generation devices into smaller devices as is depicted in Figure 1. They are very powerful which enables the coil to be heated to very high temperatures (Hussain, Shahid, Foroozesh & Sofi, 2021). These devices are designed as closed-system devices with a smaller fluid reservoir or open-system devices with larger fluid reservoirs (Omaiye et al., 2021).

The e-liquids used in fourth-generation devices differ from those used in first, second and third-generation devices. E-liquids used in fourth-generation devices utilise nicotine salts as opposed to freebase nicotine, making them more addictive (Omaiye et al., 2021). Nicotine salts cause less irritation to the throat and allows a higher nicotine content to be inhaled (Boykan

& Goniewicz, 2021). E-liquids used in fourth-generation devices are therefore more desirable but also pose a higher risk of user addiction.

Analysis of e-cigarette definitions in various countries' legislation

When analysing the definitions of the various countries' legislation, it is important to note that in some countries, the definition of e-cigarettes is combined with that of heated tobacco products. Therefore, any references to tobacco and heated tobacco products will not be discussed below.

In general, tax policies on e-cigarettes may either levy a tax on the e-cigarette device (ENDS or ENNDS) and/or its components, the volume of e-liquid, the nicotine content or a combination of the above. As discussed above, the definitions of e-cigarettes will be analysed to determine whether the definitions discuss the following components:

- E-cigarette device, differentiating between ENDS and ENNDS, as well as their components,
- E-liquids, irrespective of their nicotine content
- E-liquids that specifically contain nicotine

A definition/(s) for e-cigarettes are included in the legislation that taxes e-cigarettes in Korea, Italy, Kenya, Latvia and Russia. These definitions are listed in Table 2 below. This enables the tax authority and taxpayer to identify the product subject to the tax as intended by the legislator.

Table 2: Analysis of Korea, Italy, Kenya, Latvia and Russia's definitions

Country	Definitions included in the legislation	E-cigarette devices and components	Distinction between ENDS and ENNDS devices	E-liquids, irrespective of their nicotine content	E-liquids containing nicotine
Korea	<u>Enforcement Decree of the Local Tax Act, Presidential Decree No. 28714:</u> 'Electronic tobacco: Tobacco produced to give the effect of smoking in a way that a person inhales a solution containing nicotine, tobacco leaves or a solid tobacco product through his or her respiratory system, using an electronic device;' (Korea Legislation Research Institute, 2018).	Korea's definition refers to an electronic device but does not list any components that make up the electronic device.	There is no distinction between ENDS and ENNDS devices.	The definition specifically refers to a solution that contains nicotine.	The definition specifically refers to a solution that contains nicotine.
Italy	<u>Testo unico del 26/10/1995 n. 504 (Consolidated text of 26/10/1995 n. 504, Italian):</u> '1. ... By manufactured tobaccos we mean: ... e-bis) inhalation tobaccos without combustion. 2. The manufactured tobaccos referred to in paragraph 1 are defined as follows: ... e-bis) smokeless tobacco products that can be consumed without the combustion process are considered smokeless inhaled tobacco" (Dipartimento delle Finanze, n.d.).	Italy's definition refers to a smokeless tobacco product but does not refer to any components of the e-cigarette device.	The definition does not differentiate between ENDS and ENNDS at all, but it is wide enough for it to be interpreted to include both, ENDS and ENNDS.	There is no reference to e-liquids in this definition.	There is no reference to e-liquids in this definition.
Kenya	<u>Excise Duty Act No. 23 of 2015:</u> "Electronic cigarettes" means electronic nicotine delivery system whether or not containing tobacco or tobacco substitutes and includes electronic cigarette cartridges;' (Kenya Revenue Authority, 2021).	The definition of e-cigarettes in the Kenyan legislation lists one component of the ENDS device, namely the e-cigarette cartridge.	ENDS are specifically referred to in the definition, but ENNDS are not mentioned at all.	There is no reference to e-liquids in this definition.	There is no reference to e-liquids in this definition.
Latvia	<u>Latvijas Republikas Tiesību Akts: Par akcīzes nodokli (Legal Acts of The Republic of Latvia: On excise duties, Latvian):</u> '(1) The liquid used in disposable and reusable electronic smoking devices is taxed. (2) Components for the preparation of liquid used in electronic smoking devices (for example, propylene glycol, flavorings, vegetable glycerin, nicotine extracts and other substances) used to prepare the liquid used in electronic smoking devices shall be taxed' ((Latvijas Vestnesis, n.d.a). <u>Latvijas Republikas Tiesību Akts: Tabakas izstrādājumu, tabakas aizstājēju produktu, augu smēķēšanas produktu, elektronisko smēķēšanas ierīču un to šķidrumu aprites likums (Legal Acts of The Republic of Latvia: On the Handling of Tobacco Products, Herbal Products for Smoking, Electronic Smoking Devices and Their Liquids, Latvian):</u>	Latvia's definitions are very comprehensive. It mentions the common components that make up the device, whilst also mentioning some generic differentiators of the different generation devices.	There is a clear differentiation between ENDS and ENNDS.	The definition of e-liquids also considers various differentiations of how the product may be used or sold, including mentioning the ingredients used in e-liquids where users buy the e-liquid ingredients separately and mix the solutions themselves, closing the loop on a possible tax avoidance scheme.	The definition specifically refers to a solution that contains nicotine.

	'7) electronic smoking device is: a) electronic cigarette which is a product that can be used for consumption of nicotine-containing vapour via a mouthpiece, or any component of that product, including a cartridge, a tank and the device without a cartridge or tank, and which can be disposable or refillable by means of a refill container and a tank, or rechargeable with single use cartridges; b) electronic device which is a product or a component of that product, including a cartridge, a tank and the device without a cartridge or tank, which can be used for consumption of nicotine-free vapour via a mouthpiece and which can be disposable or refillable by means of a container which is filled with nicotine-free liquid, and a tank, or rechargeable with single use cartridges;' (Latvijas Vestnesis, n.d.b).				
Russia	<u>Налоговый кодекс Российской Федерации (часть вторая) (Tax Code of the Russian Federation (Part Two), Russian':</u> '16) liquids for electronic nicotine delivery systems. For the purposes of this chapter, electronic nicotine delivery systems are electronic devices used to convert liquid for electronic nicotine delivery systems into an aerosol (vapor) inhaled by the consumer. For the purposes of this chapter, e-liquid for electronic nicotine delivery systems is any e-liquid containing liquid nicotine in a volume of 0.1 mg/ml or more for electronic nicotine delivery systems, including those contained in such electronic devices;' (КонсультантПлюс, n.d).	The definition defines a device but does not list any components of the device.	ENDS are referred to in this definition but ENNDS are not referred to at all.	The definition only refers to an e-liquid that contains 0.1mg/ml of nicotine.	The definition refers to an e-liquid that contains 0.1mg/ml of nicotine.

Source: Authors' compilation, except for the 'Definitions included in the legislation' column, where the sources are reflected in the table.

Criteria for e-cigarette definition

For South Africa's tax policy on e-cigarettes to be successful, an essential element is for e-cigarettes to be clearly defined in the legislation. Through the results discussed above, this will be achieved if the definition of e-cigarettes refers to the following elements:

- E-cigarette devices as well as their components,
- Differentiates between ENDS and ENDS devices
- E-liquids, irrespective of their nicotine content
- E-liquids that specifically contain nicotine

In addition to the above, the definition must be able to prevent any tax avoidance schemes through the customisation of the device or the e-liquid. The definition may also be made up of a singular definition as is the case in Korea, Kenya, Italy and Russia or made up of multiple definitions as is the case in Latvia.

Definition of e-cigarettes in South Africa: Draft bill

As stated above, there is currently no clear definition for e-cigarettes in the Customs and Excise Duty Act in South Africa. In the draft bill, which will govern the consumption, sale, advertising and distribution of e-cigarettes in South Africa, e-cigarettes are defined through multiple definitions. As this is draft legislation in South Africa, these definitions are used in this article as a base to analyse against the criteria discussed above to determine whether it is comprehensive enough to be adopted within the Customs and Excise Duty Act or in a related guidance document.

The following definitions relevant to e-cigarettes are included in section 1 of the draft bill (Department of Health, 2022:3-4):

“component”— ...

(b) in respect of an electronic nicotine delivery system and electronic non-nicotine delivery system, whether or not sold separately from the system, is any part or element integral to the system, and includes but is not limited to the cartridge, cartomiser, clearomiser, tank system, drip tip, mouthpiece, atomiser, internal power source, electronics, any software, any nicotine containing substance and any other substance, whether containing

nicotine or not, including any source of characterised flavouring or other substances; ...

“electronic delivery system” means an electronic device designed to produce an aerosol or vapour inhaled by the user and any nicotine containing substance or a non-nicotine or non-tobacco containing substance manufactured to be used with such a system;

“electronic nicotine delivery system” means an electronic device designed to produce an aerosol or vapour inhaled by the user and any nicotine containing substance, other than a tobacco product manufactured to be used with such a system: Provided that this definition shall not apply to any nicotine device or nicotine substance regulated under the Medicines and Related Substances Act, 1965 (Act No. 101 of 1965);

“electronic non-nicotine delivery system” means an electronic device designed to produce an aerosol or vapour inhaled by the user and a non-nicotine or non-tobacco containing substance manufactured to be used with such a system: Provided that this definition shall not apply to any nicotine device or nicotine substance regulated under the Medicines and Related Substances Act, 1965 (Act No. 101 of 1965); ...

“ingredients”, in respect of— ...

(b) an electronic nicotine delivery system, means nicotine and chemicals used in relation to creation of the aerosol or vapour produced when using the system, additives and any other substances in the nicotine containing substance or manufactured to be used with the system; ...'

Analysis and recommendations for e-cigarette definitions in South Africa

In Table 3, the definitions contained in the draft bill which apply to e-cigarettes are analysed against the criteria for the definition of e-cigarettes discussed above.

Table 3: Analysis of draft bill definitions against required criteria

Criteria	Discussion of criteria in draft bill definitions
E-cigarette devices and components	The draft bill separately defines an electronic delivery system, ENDS and ENNDS. A list of different components are included in the definition of component, which considers different components applicable to different generation devices as well as related accessories. The definition caters for future developments as it states that components are not limited to those mentioned in the current definition.
Distinction between ENDS and ENNDS devices	There is a clear distinction between ENDS and ENNDS devices. ENDS and ENNDS are separately defined and distinguished from one another on the basis that ENDS uses a nicotine substance whereas ENNDS uses a non-nicotine substance.
E-liquids, irrespective of their nicotine content	E-liquids aren't specifically defined as a separate definition nor are they referred to in the definitions of electronic delivery system, ENDS and ENNDS. These definitions do, however, refer to a substance manufactured to be used with the system instead of using the term e-liquid.
E-liquids containing nicotine	All of the definitions mention the inclusion or exclusion of nicotine as applicable.

Source: Authors' compilation

The definitions for component, electronic delivery system, ENDS, ENNDS and ingredients as contained in the draft bill meet the criteria for a comprehensive definition to define e-cigarettes in the tax legislation. It is wide enough to encompass any possible future changes to the tax policy. Therefore, it is suggested that these definitions be added to the Customs and Excise Duty Act or be published in a guide by SARS for taxpayers to clearly identify the product that is subjected to the excise duty.

CONCLUSION

An excise duty is levied on e-liquids used in e-cigarettes in terms of the Customs and Excise Duty Act with effect from 1 June 2023 in South Africa. However, the current description for e-cigarettes as contained in the Customs and Excise Duty Act is ambiguous and creates potential tax enforcement risks.

E-cigarettes should be well defined in the legislation that imposes the tax to avoid too much authority being given to the tax authority in applying the legislation. It

is also necessary for the taxpayer to clearly identify the product that is being taxed without being too rigid. If it is too rigid, taxpayers could circumvent the tax base by engaging in tax avoidance schemes. The definition also needs to be well-worded to cater for any future product developments that are rapidly taking place in the market.

This article aimed to understand the e-cigarette as a product and its operational functionality before reviewing existing definitions of e-cigarettes from selected countries to make recommendations for South Africa. The review resulted in the following criteria being identified as elements to include in a definition for e-cigarettes: the e-cigarette device and its component; the distinction between ENDS and ENNDS devices; e-liquids, irrespective of their nicotine content and e-liquids containing nicotine.

In evaluating the definition of e-cigarettes as contained in the draft bill for the Tobacco Products and Electronic Delivery Systems Control Bill against the criteria listed above, it was found that these definitions are comprehensive and meet the criteria for a well-defined product. Therefore, it is suggested that the definitions for component, electronic delivery system, ENDS, ENNDS and ingredients be included in the Customs and Excise Duty Act, as all countries reviewed in this article contain definitions in the tax legislation which imposes the tax on e-cigarettes. Alternatively, a guide could be issued by SARS to clarify the product that e-cigarette tax is being levied upon.

Suggestions for future research

Future research can be undertaken to analyse the taxpayer and tax authority's interpretation of how the tax on e-cigarettes should be implemented considering that e-cigarettes are not currently well defined in any effective legislation in South Africa. Another area for future research is to study the quantitative impact on the collection and enforcement of excise duties on e-cigarettes in countries where e-cigarettes are defined in the tax legislation as opposed to those that do not define e-cigarettes in their tax legislation. In addition, if South Africa includes the suggested definitions for e-cigarettes in the Customs and Excise Duty Act, a study can be done to analyse the impact of including the definition on the collection and enforcement of the excise duty on e-cigarettes.

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Reflecting on the De Minimis Rule in Retirement Funds After Two Decades of Reform

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Purpose: National Treasury started with the South African retirement fund tax reform two decades ago. The tax reform included the harmonising of the three retirement funds, along with a mandatory annuitisation of one-third of provident fund. Furthermore, a new two-pot system was proposed for the industry, with the effective date aimed for 1 September 2024. However, after all the retirement tax reform measures the retirement interest de minimis rule (originally referred to as the commutation of small annuities) remains i.e. where a member retires from a fund and the retirement interest is (currently) R247 500 or less, the mandatory annuitisation does not apply, hence allowing a member to receive the entire retirement interest as a lump sum. The reasons for the status quo regarding the de minimis rule for retirement interest are explored and questioned in this study.

Design/methodology/approach: The study followed a qualitative research method, from an interpretive paradigm to address the research question and objective of the study. Secondary data in the form of the Income Tax Legislation which includes the Taxation Amendments Laws, SARS documents, peer reviewed research papers, and papers from experts in the field were analysed.

Findings: The key finding of the study is that the retention of the de minimis rule for a retirement scenario has been flagged as an issue for consideration in the first decade of the reform, however, it has not been addressed at all during the second decade.

Originality/contribution: The research paper will hopefully re-spark the debate on the status quo of the retirement interest de minimis rule at retirement. Furthermore, the study offers a few potential alternatives to the rule.

Keywords: *commutation of small annuities, de minimis rule, retirement funds, retirement fund harmonisation, retirement tax reform, tax-free investments, two-pot system*

INTRODUCTION

For one to retire financially independent, one has to start saving for retirement at an early stage of one's career (Snyman, van der Berg-Cloete & White, 2017). Sulka (2020) states that individuals who plan for retirement and actively take steps towards preparing for retirement tend to accumulate more wealth than individuals who do not. Financial literacy plays an important role in proper planning and has been established to have a positive impact on retirement planning (Sulka, 2020). However, insufficient retirement savings among individuals is a worldwide issue (Suozzo et al. 2001). Marumoagae (2017) notes that low retirement savings can also be attributed to a lack of awareness regarding the amount required for retirement. Retirement savings play a crucial role in ensuring that poverty among the elderly population and their households is decreased, yet only a small portion of the global population possesses them (Stewart & Yermo, 2009). There is additional pressure on the government to provide social grants if one

retires without having saved for retirement. Therefore, a challenge shared by governments throughout the world is to create retirement fund systems that will support members after retirement (Kolodiziev et al. 20, 2021). Consequently, numerous governments globally are attempting to incentivise members to contribute more to their private pension plans to lessen their reliance on the government (Redonda & Axelson, 2021).

South Africa (SA) is not unique when it comes to the retirement savings' problems and challenges, as a large number of families fail to accumulate the funds and assets required to fulfill their retirement obligations. As per the National Treasury's (2014a) report, a mere 6% of retirees are able to sustain their standard of living beyond retirement. Retiring without retirement savings increases the pressure on the government to provide social grants (2014a). In SA, section 27(1)(c) of the Constitution guarantees all citizens the right to access to "social security, including, if they are unable to support themselves and their dependants,

¹ This paper is partially based on the dissertation/thesis of Abram Vusi Mashiane, presented for the Masters Degree in Taxation at the University of Johannesburg with supervisor author of this paper Michelle van Heerden.

appropriate social assistance” (1996:14). This social assistance is administered by the South African Social Security Agency (SASSA). It is estimated that nearly one-third of South Africans receive social grants (Plagerson et al. 2019). 18 829 716 South Africans were allegedly receiving social grants as of March 2023 for children, the elderly, and those with disabilities (SASSA, 2023). Since there aren't any direct contributions to SA's social grant program its viability is in doubt (Kgatla, 2013). In addition, compared to people in other developing nations, South Africans save less and have higher household debt to income ratios (Reddy, 2009).

From the formal retirement structures such as retirement funds, SA, like many other developing nations, faces a deficit when it comes to retirement savings held in the retirement funds system after retirement (Pask and Marx, 2018). According to estimates from the National Treasury (2013), roughly 75% of retirees deplete their retirement fund savings and end up being dependant on the government or their family for survival. This is taking place in a time when the average mortality age in developing nations is rising and is predicted to double by 2050. Despite this reality and knowledge, many South Africans still do not adequately plan and save towards their retirement (Reyers, 2018). As a result, the South African government joined the worldwide efforts to establish a retirement fund system that would allow its citizens to live independently after retirement (Marumoagae, 2017).

The South African retirement tax reform started in 2004 (National Treasury, 2004). At the outset National Treasury (2004) listed several objectives in their discussion paper, namely to:

- encourage people to ensure they have enough money saved for their own retirement and their dependents' needs
- encourage employers and employees to include retirement funding in their compensation agreements
- assure that retirement funding plans are cost-effective, prudent, transparent, and equitable
- promote the preservation of purchasing power of pensions by shielding them from the effects of inflation, while staying within the fund's resource limitations
- enhance fund governance standards, encompassing trustee expertise and behavior,

safeguarding members' interests, responsibility, and informing members and contributors of relevant information ·

- assure elderly individuals without resources of a basic income entitlement via social assistance.

The commitment to the reform and desire to overhaul and harmonise the retirement fund sector were confirmed by the Minister of Finance in his 2013 budget speech (National Treasury, 2013a), resulting in the first amendments being effective from 1 March 2016. One of the problems that the reform also aimed to address was the fact that participants in retirement plans are permitted to withdraw their retirement funds when they resign from the fund i.e. prior to reaching retirement age (Kgatla, 2013; National Treasury, 2007). The notable exception is retirement annuity funds, where early withdrawal was not allowed before the age of 55, unless the amount in the fund was less than R15 000, or the individual had to retire early due to ill-health or permanent disability, or an individual emigrated from South Africa and have been a non-resident for tax purposes for an uninterrupted period of three years, according to the relevant South African Revenue Service (SARS) process and criteria.

The solution offered by National Treasury to the withdrawal at resignation was the so-called “two-pot” system, also known as the ‘two-component’ system, with an anticipated effective date of 1 September 2024. The rationale for the new system is that it will discourage employees from quitting their jobs in order to access retirement funds, as members will have access to one-third of their future contributions at any time. In addition, National Treasury hopes that the access and flexibility to a portion of the employee's retirement savings will incentivise more contributions to retirement accounts (Burger, 2023).

When taken at face value, the justifications provided for harmonising retirement funds appear to be sufficient to achieve the National Treasury's objectives. However, one condition that remained the same, even after the introduction of the “two-pot” system, was the ability to receive the entire retirement interest as a cash lump sum, where the retirement interest does not (currently) exceed R247 500 (Republic of South Africa, 2024). (hereafter, referred to as the ‘retirement interest de minimis rule’).

PROBLEM STATEMENT AND RESEARCH QUESTION

The status quo regarding the ability to make a full withdrawal at retirement, for retirement interest balances not exceeding retirement interest de minimis of R247 500 presents the question of whether it is wise to maintain the ability to withdraw the whole retirement interest in one lumpsum. Since National Treasury (2013), estimates approximately 75% of retirees deplete their retirement fund savings and end up being dependant on the government or their family for survival, the premise is that if a member only has a retirement interest of R247 500 or less available in the fund, that member cannot financially afford to make a full withdrawal at retirement.

The research question is, therefore: Has the retention of the 'retirement interest de minimis rule' received sufficient attention during the twenty-year period of retirement tax reform?

RESEARCH METHODOLOGY

To answer the research question, a qualitative, non-empirical interpretive paradigm was followed. The interpretative research approach was chosen because it is less constrained while it offers flexibility features that have led to it becoming a dominant qualitative research methodology (Hutchinson, 2016; Tuffour, 2017). The qualitative research methodology is explorative; allowing the researcher to investigate, interpret and fully grasp the in-depth research questions being investigated (Lhotka, 2003). Secondary data in the form of the Income Tax Legislation which includes the Taxation Amendments Laws, SARS documents, peer reviewed research papers, and papers from experts in the field were evaluated.

LITERATURE REVIEW

Background

Before the harmonisation of the retirement tax regime, individuals have been able to save for retirement using three vehicles, which are the pension fund, provident fund, and the retirement annuity fund. SA has two additional funds: the Provident Preservation Fund and the Pension Preservation Fund. According to Hirschbeck (2014), these funds are for a member of a pension fund or provident fund that leaves the fund

and decides to transfer their retirement interest into a pension or provident preservation fund, rather than receiving it as a lump sum payment. The same regulations and consequences apply to a pension preservation fund as they do to a pension fund. The same applies for provident funds. These five funds are hereafter collectively referred to as "retirement funds". The SARS approves retirement funds, which are set by law. Even though the Pension Fund Act 24 of 1956 does not distinguish between a pension fund and a provident fund, the income tax implications were different, both with regard to the deductibility and taxability of contributions, as well as the taxation upon withdrawal of the lump sum (van den Berg, 2016). It is these differences and discrepancies National Treasury aimed to address by harmonising the income tax treatment of all the retirement funds (King, 2015; Lotter & Andrew, 2017). The chronological sequence of steps/initiatives taken by National Treasury are summarised below.

Harmonisation of contributions and payouts

One of the major differences between the income tax treatment of pension funds and provident funds was that provident fund contributions were not deductible for tax purposes, but on payout those non-deductible contributions could be deducted from the payouts. Another major difference was the fact that provident fund payouts could be taken as a single lump sum payment i.e. provident funds did not have the compulsory annuitisation principle as which apply to pension funds and retirement annuity funds (Kamdar & Advisor, 2016). These differences were addressed by aligning the income tax treatment of all funds: All retirement fund contributions are deductible (subject to limitations) and all payouts are subject to compulsory annuitisation i.e. maximum one-third of the retirement interest available in the retirement fund can be taken as a lump sum, with two-thirds having to be paid out as annuities over time. The transition of compulsory annuitisation of provident funds resulted in two exceptions: firstly, all amounts available in the provident fund as at 1 March 2021, including any subsequent growth of that fund amount (*also known as vested right interest*) can be paid out in full as a lump sum. Secondly, provident members 55 and older as on 1 March 2021 are completely excluded from the compulsory annuitisation. The objective behind the compulsory annuitisation is to help retirement fund members become independent after retirement and

less dependent on the already overburdened government (Barry, 2014; Du Plessis, 2015; Kokott, 2011; van den Berg, 2016).

Tax-free investments

The formal retirement fund sector is, however, not diverse enough to deal with the informal sector's needs (Guven, 2019). The fact that SA has a very high unemployment rate, coupled with the inability of many people working in the informal sector to consistently contribute to retirement savings, called for alternative savings plans (Willows, 2019). National Treasury, therefore, created tax-free investment accounts, to offer a new retirement savings vehicle and to hopefully encourage individuals to save more (Mintz & Wilson, 2013; National Treasury, 2012). These tax-free investments came into effect from 1 March 2015, as a result of the insertion of section 12T of the Income Tax Act (58 of 1962). In principle, section 12T allows individuals to make limited contributions to approved savings vehicles. Post-tax income is used to make contributions, but it can be withdrawn whenever desired. The amounts withdrawn do not, however, replenish the contribution cap. However, all returns are tax-free (Groenewald, 2018).

The limitations of contributions are two-fold: one per annum and one per lifetime. The yearly contribution limit was started at R30 000 per annum, which was increased to R33 000 per annum for the 2018 year of assessment, and from the 2021 year of assessment R36 000 per annum. However, the lifetime limit was set at R500 000 and has not been amended since the inception of the tax-free investment option (SARS, 2023). These limitations exist regardless of whether the individual invested in a single account or in multiple accounts. Individuals may choose to make recurring contributions or a single, lump sum payment, provided it is within the annual limitation. No amount withdrawn from the scheme may be replaced, so any amount claimed from the scheme remains subject to the lifetime cap established. A penalty of 40% is applicable to contributions made in excess of the annual contribution caps, so it is important to adhere to the established limits (SARS, 2023).

As stated earlier, only approved savings vehicles qualify for the special tax-free status. National Treasury endeavoured to develop a framework, founded on respectable and sound principles which attracts service

providers to take part in this program while also guaranteeing value to investors and savers based on three principles: simplicity, transparency and suitability (Groenewald, 2018). The regulations on the requirements for eligible providers were announced in the Government Gazette No. 10372 Vol. 596, as regulation 172 on 25 February 2015. The preamble states that the tax-free investment products should, *inter alia*, carry fees and charges that are reasonable. Currently, tax free investments may only be provided by a licenced bank, long-term insurers, collective investment schemes (with certain exceptions), the National Government, a mutual bank, a co-operative bank, the South African Postbank, an administrative financial services provider and a person authorised by a licensed exchange to perform one or more securities services in terms of the exchange rules (SARS, 2024).

Individuals investing in these tax-free products will have access to both interest and equity products (National Treasury, 2014b). Hence, the return on investments in these products, interest, dividends and/or capital gains are all earned tax-free (Groenewald, 2018).

Two-pot system

One of the flaws in the retirement system that received attention during the retirement reform was the members' ability to withdraw funds from their retirement savings when they leave employment i.e. on resignation, not retirement (Kgatla, 2013). In most jurisdictions, these early withdrawals are only permitted when members actually need the money - for example, when they become unemployed, go through a difficult time, or have a medical emergency; however, it inevitably results in members having less money when they retire (Horton, 2022; OECD, 2021; World Bank, 2019). Hence, the two-pot system was proposed for South Africa. The two objectives of the two-pot system are to:

- preserve retirement savings when they leave or change employment; and
- enable controlled access to savings in time of financial hardship (Burger, 2023)

The planned implementation date for the two-pot system is 1 September 2024. Even though reference is made to the two-pot system, there are in fact three pots. The first being the 'vested pot', which contains all funds accumulated prior to the implementation date.

The funds in the vested pot will continue to be governed by existing rules and restrictions, with no immediate access before retirement or resignation. After 1 September 2024, contributions will be allocated to two different pots. One-third of the contributions will be allocated to the 'savings pot' and two-thirds to the 'retirement pot'. The 'savings pot' can be accessed at any time prior to retirement, limited however to one withdrawal per year and a minimum of R2 000. An important fact to highlight though is that these withdrawals from the savings pot will not be taxed according to the separate, favourable withdrawal tables but on the individual's normal sliding scale, with the highest marginal rate being 45%. Regarding the funds in the 'retirement pot', it must remain intact until retirement. (Burger, 2023). The one measure that was retained, even after the two-pot retirement reform, is the de minimis rule at retirement.

De minimis rule

The first time the concept of the de minimis rule was introduced in SA in the context of retirement funds was on 15 September 1995, through SARS General Note (GN) 16. The subject title was "Commutation of small annuities". There were several addenda to GN 16, specifically Addendum B, which introduced the principle of compulsory annuitisation on 31 March 2008. The Taxation Laws Amendment Act No. 8 of 2007 amended paragraphs (c)(ii)(dd) and (b)(ii) of the definitions of "pension fund" and "retirement annuity fund" respectively, to provide that not more than one-third of the total value of any annuities to which any member of a retirement fund becomes entitled, may be commuted for a single payment, except where two-thirds of the total value does not exceed R50 000, hence a total retirement interest of R75 000. The second issue of GN 16 was released on 31 March 2010, which replaced GN 16 Issue 1 and all its addenda. The principle of allowing a 100% withdrawal as a lump sum if the retirement interest is R75 000 or less, however, remained. GN 16 Issue was eventually withdrawn on 17 February 2021 due to it becoming obsolete as a result of the retirement tax reform legislative changes via several Amendment Acts since 2013. The threshold was doubled, to R150 000, with Act 31 of 2013, with effect from 1 March 2015 but an amendment in 2014 shifted the implementation date to 1 March 2016 and ultimately Amendment Act No. 25 of 2015 increased the threshold to the current R247 500. Lastly, it is important to note that the de minimis rule applies per

fund. It is not cumulative across multiple funds or limited to a single application per lifetime. For example, if a member has a retirement interest of R200 000 in a pension fund, and R200 000 in a pension preservation fund, the member will be entitled to take both retirement interest as a lump sum.

DISCUSSION

The justification for the de minimis rule can be found in the Explanatory Memorandum to Amendment Act No. 8 of 2007, which stated:

This full withdrawal of smaller funds is allowed because administration costs (i.e. industry fees) in respect of relatively small annuities often outweigh the benefits. Even though annuities are generally preferred, individuals should not be forced to utilise annuities if the benefits will be consumed by fees (National Treasury, 2007:3)

The reason for the de minimis rule (i.e. ignoring the compulsory annuitisation) was again confirmed in the Explanatory Memorandum to Amendment Act No. 31 of 2013 by National Treasury, stating that small annuities retained in a fund are "not cost effective in terms of commission and administrative fees" (2013b:18). The de minimis measure was, arguably, introduced to meet one of National Treasury's objectives at the outset in 2004, namely promoting the preservation of purchasing power of pensions by shielding them from the effects of inflation, while staying within the fund's resource limitations.

The premise used by National Treasury for keeping the de minimis rule is that it will be ineffective to keep small retirement interest amounts in the retirement fund due to high administrative and management costs – which sounds like a reasonable justification (National Treasury, 2007). However, this author argues that the ability to commute small annuities is conflicting with two other fundamental objectives of the reform, namely ensuring individuals have sufficient retirement interests for their own and dependents' needs as well as cost-effective retirement funding plans.

With regard to the first objective questioned – sufficient retirement interest: One may argue that if a member only has a retirement interest of R247 500 or

less available in the fund, that member cannot financially afford to make a full withdrawal. It is a well-known fact that the many individuals cannot work with money, and should they receive a lump sum they typically spend the money. There could be many reasons for this, however, the more pertinent question is whether sufficient consideration was given to the negative impact and consequences of the *de minimis* rule, especially at the time the two-pot systems was discussed and debated? To the best of this author's knowledge, no explicit consideration was given to the *de minimis* rule – other than increasing the limits twice over the last two decades. It is noteworthy that National Treasury themselves stated in 2015 that "... the new law passed in Parliament has increased the amount required for annuitisation at retirement ... and requires a review of the legislation after two years from the effective date, and to report this review to Parliament" (2015:1). Almost another decade has gone by, yet the threshold has not been increased and no report to Parliament on the review of the legislation could be found on the *de minimis* concern.

With regard to the second objective questioned – cost effective retirement funding plans: Retirement fund administrators segment their cost based on operations. They charge a percentage for investing the retirement funds (an example being 40 to 60 basis point of the entire invested funds), while for other administrative functions, such as issuing quarterly reports to members and record keeping, a flat standard fee is applied (John *et al.*, 2021). A flat standard fee is more detrimental to small amounts than to large ones. For instance, R500 per month on R247 500 is equivalent to 0.2%, whereas R1 000 000 is equivalent to 0,05%. Back in 2007, National Treasury themselves stated that "[they are] by no means satisfied with the costs charged on these annuities and will continue to look at various interventions." (National Treasury, 2007). The question is: did National Treasury considered other interventions?

Extensive research was conducted using both the Scopus database and Google Scholar database, to identify any scholarly articles on the *de minimis* rule on retirement funds in SA. The Scopus database revealed no studies, irrespective of whether the words "*de minimis*" and "retirement funds" were searched in the title or keywords of the studies. Using Google Scholar, with the words "*de minimis*" and "retirement funds" in the title, the only document was the limited scope

masters' dissertation by Mashiane (2024), from which this article originated. In addition, again using Google Scholar, the word "*de minimis*" was searched in the title, with the keyword search of "retirement funds". A total of 38 papers were identified. By switching the words in the search i.e. with "retirement fund" in the title and "*de minimis*" as a keyword, a total of 116 papers were identified. All of the papers were reviewed - none of which interrogate the existence or retention of the *de minimis* rule. For completeness' sake a search was also performed on Google Scholar with the words "small annuities", "retirement funds" and "South Africa". A total of 16 papers were identified, but again none relating to this paper's study.

The research question is hereby answered that insufficient attention was given to the retention of the 'retirement interest *de minimis* rule' during the twenty-year period of retirement tax reform. Other than increasing the *de minimis* threshold from R50 000 to R247 500, research indicates that no additional thought, attention or discussion were assigned to the rule for a retirement scenario. The lack of literature on the reasons for retaining the *de minimis* rule comes as no surprise, as aptly described by Osofsky and Thomas (2021:773):

De minimis tax rules - rules that eliminate tax burdens for low-income taxpayers or low-dollar transactions – abound in the tax law. Despite the prevalence of such rules, legal scholarship has treated them as – well - *de minimis*, or as mere rounding errors that do not merit sustained attention. This perspective is understandable. If *de minimis* rules address insignificant taxpayers or tax liabilities, aren't the rules themselves likely to be insignificant?

Even though not part of this paper's research question, the author did briefly consider whether there are any other viable options or avenues that National Treasury pursued in the past. In its discussion paper for 2004, the National Treasury proposed the concept of introducing a national savings fund (NSF) to help deal with the excluded sector in the retirement fund system. However, it seems that the NSF disappeared from the radar. Other than a few discussion documents, papers and presentations at Indabas in

2004 and 2005, no additional information on the proposal could be found on National Treasury's website. Another proposal that was tabled in the 2004 discussion paper was the RSA retail savings bonds. A Google Scholar search on scholarly articles on RSA retail savings bonds revealed an interesting dissertation by Kgomo (2018), whereby a comparison was made on the determinants of investment choices between the RSA Government Retail Bonds and "stokvel" by salaried individuals. The findings show that, when it comes to investment and savings, racial, educational, salary, and geographic disparities must be appropriately considered during the policy-making process. In the 2004 discussion paper, government also mentioned that they will explore the introduction of a sukuk (Islamic) retail bond to expand the product offering. The emphasis is, submittedly, on expanding the product offering, as Islamic products may not necessarily appeal to the diverse South African rainbow nation.

CONCLUSION AND RECOMMENDATION

Inadequate retirement savings among people is a global problem. SA is no different - grappling with the reality that currently more than 18 million of its residents are receiving social grants, and aggravated by the fact there is no direct contribution to the SASSA program. For the fortunate individuals that do belong to formal retirement fund structures in South Africa, the warning sign should be National Treasury's (2013) estimate that approximately three-quarters of retirees deplete their retirement savings earlier than expected.

Two-decades ago National Treasury embarked on a reform of the retirement system, with six objectives in sight. The reform is nearly complete, yet the de minimis rule (originally referred to as the "commutation of small annuities") stayed intact. This research paper suggests that the rule perhaps did not receive sufficient attention in the reform process. This paper challenges the status quo of the de minimis rule based on the conflict caused by the rule in terms of two of National Treasury's objectives, namely sufficient retirement savings and cost-effective retirement plans. It is a known fact that many individuals are not financial literate to handle and deal with single lump sum payouts. Furthermore, National Treasury themselves admitted in 2007 that they are by no means satisfied with the cost charges on annuities, yet there is no

evidence that they continued to investigate alternative interventions or solutions.

The author hopes this research paper ignites the spark for debates about the feasibility of the de minimis rule and/or initiate investigations into alternatives. The author is of the view that there are potentially a few products already available, such as the tax-free investment products and RSA savings bonds. It is submitted that these two products should be simple to implement, as opposed to pursuing new products such as the National Skills Fund (NSF) or Susuk. Legislative changes to the de minimis rule could entail forcing fund members with small annuities to invest the monies in either tax-free products or RSA Savings Bonds. The monetary values of these products will have to be adjusted, and revised regularly but it is refreshing to notice that National Treasury (2013) kept to their promise to progressively increase the caps of the tax-free investment accounts in accordance with inflation, albeit only the annual contribution limit and not the life-time limit. The biggest obstacle to address is the costs. However, a good starting point is that the regulations for eligible providers of tax-free products already bound them to reasonable cost structures, and the government could consider the same for its bonds. In addition, perhaps the time has come for retirement providers to join the environmental, social and governance (ESG) initiatives, by specifically reporting on their commitment to minimal fees for de minimis retirement interests. It will allow these providers to showcase their commitment to ESG, with the potential to increase their ESG ratings – as Thiait's (2023) study provided evidence of a significant correlation between overall ESG ratings and corporate tax transparency.

Future research opportunities include calculating the percentage of members who have retired or are at risk of retiring with R247,000 or less, as well as examining the financial implications of managing small amounts inside retirement funds.

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